

Chief Financial Officer Letter of Transmittal – 2022 Financial Statements

June 12, 2023

Mayor and Council, City of White Rock

Members of Council:

I am pleased to present the Financial Statements of the City of White Rock (the “City”) for the year ended December 31, 2022, which includes the Financial Statements and Auditors’ Report for the City pursuant to Sections 98 and 167 of the Community Charter.

The preparation of the Financial Statements and related information is the responsibility of City Council and the management of the City of White Rock and is intended to provide reliable and accurate financial information on the state and health of the City’s finances to residents, businesses, taxpayers, and other statement readers.

The financial statements and related information have been prepared in accordance with generally accepted accounting principles (GAAP) for Canadian local governments as established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada and the Provincial Ministry of Municipal Affairs.

The audit firm KPMG LLP was appointed by Council and is responsible for expressing an opinion as to whether the Financial Statements, prepared by management, present fairly the financial position of the City and the results of its 2022 operations. The auditors have expressed an opinion that the City’s financial statements present fairly, in all material respects, the financial position of the City of White Rock as at December 31, 2022, and its results of operations, its changes in net financial assets and its cash flows for the year then ended. KPMG LLP reports their audit results to City Council through a Regular Council meeting.

The City maintains a system of internal accounting controls designed to provide reasonable assurance for safeguarding assets and the reliability of financial records and documents. City of White Rock management recognizes that all systems of internal accounting controls have inherent weaknesses, which management mitigates by periodic reviews and revisions.

City services continued to rebound from the effects of the COVID-19 pandemic in 2022. Pent up global demands created by the pandemic on both local and global economies, complicated by supply chain disruptions and high inflation rates, created inflation related cost pressures on the City’s finances. Despite these challenges City management is optimistic of its financial position by continuing to exercise fiscal responsibility in managing budgetary pressures.

Financial Services

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City of White Rock

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Analysis

Summarized Statement of Financial Position

| | 2022 Actual | 2021 Actual | Year over Year Change |
|----------------------|---------------|---------------|-----------------------|
| Net Financial Assets | \$78,001,518 | \$71,361,326 | \$6,640,192 |
| Non-Financial Assets | \$170,351,670 | \$158,301,648 | \$12,050,022 |
| Accumulated Surplus | \$248,353,188 | \$229,662,974 | \$18,690,214 |

The City's financial position continued to be healthy throughout 2022 with a consolidated annual surplus of \$18.7M (2021 \$11.2M), bringing the Accumulated Surplus to \$248.4M. The accumulated surplus on the Statement of Financial Position is a key measure of the City of White Rock's financial strength and long-term sustainability. Accumulated surplus consists of Net Financial Assets and Non-Financial Assets and includes all funds, including utilities.

Net Financial Assets of \$78.0M (2021 \$71.4M) is the amount by which all assets exceed all liabilities and denotes the City's ability to meet its future obligations. The increase in Net Financial Assets of \$6.6M over the prior year is primarily due to an increase in investment activity offset by an increase in Accounts Payable largely related to estimated Collective Agreement increases and increases for various other liabilities.

Non-Financial Assets of \$170.4M (2021 \$158.3M), are comprised of the net book value of the City's capital assets, which include civic buildings, recreation centres, parks, roads, water, drainage and sewer infrastructure and land. Non-Financial Assets also include inventory of supplies and prepaid expenses. Non-Financial Assets increased by \$12.1M over the prior year primarily due to additions and improvements of capital assets.

Summarized Statement of Operations

| | 2022 Budget | 2022 Actual | 2021 Actual | Year over Year Change |
|----------------|--------------|--------------|--------------|-----------------------|
| Revenues | \$67,662,200 | \$65,848,558 | \$55,915,492 | \$9,933,066 |
| Expenses | \$52,362,301 | \$47,158,344 | \$44,748,724 | \$2,409,620 |
| Annual Surplus | \$15,299,899 | \$18,690,214 | \$11,166,768 | \$7,523,446 |

Budget Variance

The Annual Surplus of \$18.7M, which is the excess of revenues less expenditures for all funds, is greater than the \$15.3M budgeted surplus. While revenues from all funds, including utilities, was under budget by \$1.8M, expenses across all City functions, services and utilities were lower than budget by \$5.2M. This is primarily due to employee turnover and unfilled positions, systems maintenance projects not being completed, tangible capital asset maintenance projects that were deferred, and lower than budgeted amortization due to not completing all planned tangible capital asset projects in the year.

Year over Year Change

Annual Surplus of \$18.7M (2021 - \$11.2M) is higher in 2022 compared to 2021 by \$7.5M.

Consolidated revenue of \$65.8M (2021- \$55.9M) increased from the prior year by \$9.9M mainly due to a combination of increased property tax and other levies (\$1.8M), and increased Developers' contributions of tangible capital assets (\$9.2M) offset by decreased Sales of Services and other revenues (\$1.5M). Other smaller variances in revenue items make up the balance of \$400K.

Consolidated expenses of \$47.1M (2021- \$44.7M) increased in 2022 from the prior year by \$2.4M largely in General government, Police protection, Fire protection, and Parks, recreation and cultural services.

General government increase of \$570K is primarily due to adjusted estimates related to Collective Agreements, municipal election costs, increased software maintenance costs, increased legal fees, and increased testing and recruitment costs.

Police protection cost increase of \$638K primarily related to increases in the RCMP contract.

Fire protection cost increase of \$528K primarily due to adjusted estimates related to Collective Agreements, the full-year costs of the new fire fighter, increased overtime related to staff illness, increased insurance costs, and increased first responder training costs.

Recreation & Culture Services costs increased by \$866K primarily due to adjusted estimates related to Collective Agreements, the addition of the warming centre, increased programming costs due to participation levels increasing since the lows during the COVID-19 pandemic, higher insurance costs, and higher vehicle maintenance costs.

Operating Fund Surpluses (Deficits)

| Operating Fund | Surplus (Deficit) |
|-----------------------------|-------------------|
| General Fund | \$12,812,187 |
| Water Utility Fund | \$ 1,905,484 |
| Sanitary Sewer Utility Fund | \$ 742,006 |
| Drainage Fund | \$ 2,082,755 |
| Solid Waste Fund | \$ 1,147,782 |

Key Highlights of Operating Results for each Operating Fund

General Fund surplus of \$12.8M is prior to the planned transfers to reserve funds, such as asset improvement reserve funds, of \$9.3M. After these transfers, and carry-forwards of unexpended 2022 items into the 2023 budget, the unallocated operating surplus is \$3.4M. The unallocated operating surplus is largely due to employee turnover and unfilled positions, tangible capital asset maintenance projects that were deferred, lower than budget amortization due to not completing all planned tangible capital asset projects in the year, and not needing the full amount of the operating contingency funds put aside in the 2022 budget.

Water Utility Fund surplus of \$1.9M is primarily due to a budgeted surplus of \$1M which was achieved and was transferred to the utility's asset improvement reserve fund. The balance of the surplus is due to tangible capital asset maintenance projects that were deferred.

Sanitary Sewer Utility Fund surplus of \$742K is due to a budgeted surplus of \$390K which was

achieved and was transferred to the utility's asset improvement fund, with the balance being related to tangible capital asset maintenance projects that were deferred.

Drainage Utility Fund surplus of \$2.1M consists of a budgeted surplus of \$2.4M that was to be transferred to the utility's asset improvement fund, offset by a decrease in government grants revenue (the net surplus of \$2.1M was transferred).

Solid Waste Utility Fund surplus \$1.1M is related to transfers in from the utility's reserves for the purchase of new solid waste trucks.

Allocation of Accumulated Surplus Funds

City revenues and surpluses are strategically set aside by Council in reserves to help protect the City against unanticipated events that can trigger budget deficits, to balance programs and activities that tend to fluctuate each year, to finance long-term asset improvement and capital needs, and/or to fund contingent liabilities.

Reserve Fund Balances

The City has \$101M (\$95M in 2021) in reserve funds to help support the planned asset improvement projects and the City's operating commitments. It should be noted that this amount is not estimated by management to be sufficient to cover the cost of updating and/or replacing all of the City's infrastructure. For example, the Water Fund total reserve balance of \$9M is not estimated to be sufficient to update and/or replace all of the water infrastructure owned and supported by the City.

While the total reserve fund balances would appear to be significant, it should be noted that all but \$9.9M has been designated for specific future projects and activities by City Council.

Debt - Borrowing Capacity

The Community Charter restricts the City to the amount of long term liabilities it can commit to, as well as the process it must undertake to incur debt (including capital lease commitments). The legislation limits the borrowings to a percentage of annual sustainable revenues that can be allocated to the servicing of debt. The City is restricted to allocating 25% of its annual sustainable revenues to the servicing of debt and capital leases with the approval of the electorate, and 5% with only Council approval.

Current Borrowings

Financing capital asset improvements through debt is an important consideration and a standard funding practice utilized by municipalities, especially as cities become built out and the more traditional methods of financing through land sales and developer contributions are not as prevalent. The City of White Rock continued to carry a moderate debt-per-capita ratio in 2022. The debt-per-capita ratio decreased from \$998 in 2021 to \$942 in 2022, based on a population estimate of 21,939 per the 2021 Canadian Census.

The 2023 Financial Plan includes repayment of the outstanding debt issue the City carries with the Municipal Finance Authority for sanitary sewer local improvements. The other outstanding 5 debt issues with the Municipal Finance Authority are for the water infrastructure acquisition and infrastructure construction.

Tangible Capital Assets

The City of White Rock owns and maintains a significant amount of physical assets comprised of roads, traffic signal controls, sewer and water systems (reservoirs, pipes, pumps, etc.) equipment, vehicles, parks, facilities, and other amenities. Tangible capital assets represent a significant portion of municipal government assets and are crucial to the delivery of programs and services, operations and life safety. The collective worth of the City's assets at the end of 2022 is estimated to be approximately \$169M, calculated at historical cost as required by accounting guidelines (PSAB).

Although the historical cost is significant, the replacement cost of the assets would be substantially more. The City utilizes these assets to deliver the services and programs the community relies on, preparing annual five year capital plans that are mostly comprised of the cost of maintaining, replacing or upgrading this large and diverse inventory to keep them in a state of good repair. Some of the infrastructure has been used for some time, and some has been recently upgraded or replaced through asset improvement programs.

The City's actual net tangible capital expenditures were \$18.5M in 2022, funded from taxation, reserves, development levies, developer contributions and grants. Significant community asset improvement projects continuing, completed or started in 2022 include contributed parkland, road overlays, sidewalks, water mains and storm sewers, facility upgrades, playground replacements , ,and replacement of solid waste trucks .

Financial Sustainability

The City recognizes that it must strive to be financially sustainable, and along with regional and two senior levels of government, develop long term sustainable funding and service models that address service and infrastructure models.

Asset Management

One of the most critical aspects of financial sustainability is the stewardship over the City's assets. Without the ongoing replacement and proper maintenance of these assets the City will not be able to continue to deliver the services to the same level the community enjoys and expects.

The City of White Rock follows and supports the recommendations of accounting oversight bodies and government agencies to implement sound accounting, management and reporting practices over tangible capital assets. The City understands the long-term financial benefits of deploying a formal asset management plan, as well as the positive impact they have on overall sustainability and is working to build sustainable asset improvement funding into its base budget. The City continues to develop asset management plans for its assets to better quantify the infrastructure funding gap and re-consider the initial assumptions that were made regarding asset valuations.

Strategic and Financial Planning and Reporting

The City of White Rock undertook a strategic planning process that set out the goals and objectives of Council for its four year term, 2022 to 2026, in a Strategic Priorities document. This high-level Strategic Priorities document is linked with the departmental plans which have

been assigned to the departments to meet Council's goals and objectives.

Fiscal Capacity

City Council and City staff recognize that a sustainable community must balance the services and level of services it delivers with the ability of its residents and businesses to sustain the funding of the services. Some services need to be sustained and financed by the community at large through taxation. This provides equal access by all citizens to ensure the health, safety and well-being of the Community. Other services need to be delivered on a user fee basis to ensure the demand is matched to the willingness to pay, and that a certain portion of the cost is recovered from the users demanding the service.

City Council recognizes that a sustainable community must include certain religious, philanthropic, cultural and historical institutions, and therefore, uses its legislative powers to grant tax exemptions to applicants of this nature to assist these important community stakeholders with their financing.

In closing, I would like to thank City Council for providing their direction and leadership, the Chief Administrative Officer, Directors and their respective departments for their cooperation and input throughout the year, as well as staff in Financial Services for their dedicated service.

A handwritten signature in black ink, appearing to read "Candice Gartry". The signature is fluid and cursive, with the first name being more prominent.

Candice Gartry, CPA, CGA
Director of Financial Services Chief Financial Officer