

Report to Council



Date: May 10, 2021
To: Council
From: Audit Committee
Subject: 2020 Audit Committee Meeting Review
Department: Financial Services

Recommendation:

THAT Council receive, for information, the report of the Audit Committee, dated May 10, 2021 with respect to the 2020 Audit Committee Meeting Review

Purpose:

To provide a high-level review of the information provided to the Audit Committee during the meeting on April 29, 2021.

Background:

Annually the Audit Committee meets to review the Financial Statements, Financial Health Indicators, Auditor's report, City Reserves and Debt, Surplus Balances and Appropriations as well as a report from the Internal Control Branch updating them on accomplishments and workplans.

Discussion:

The Audit Committee was provided with an in-depth review of the financial statements for the year ending December 31, 2020 with the COVID-19 pandemic as a prevailing theme throughout. In early 2020 we saw the emergence of a new coronavirus, COVID-19, that spread to nearly every country within a few months and resulted in the World Health Organization declaring a pandemic. The COVID-19 pandemic is a health crisis not experienced in our recent history and created complex challenges for families, businesses and many other organizations in our community, including the City of Kelowna.

With very little known as to what kind of financial supports from upper levels of Government would be available to municipalities, anticipated revenue shortfalls, and the unknown ability of citizens and businesses to pay their property taxes the City was faced with potential challenges in maintaining adequate cash flows. Due to the strong support from both our citizen and business communities, property tax collection was on par with previous years. The Consolidated Statement of Financial Position reflects that revenue collections combined with a temporary change in investment strategy

resulted in an increase of \$57.6 million in Cash & Cash Equivalents with only a small decrease in Portfolio Investments of \$1.4 million, while liabilities increased \$8.2 million over 2019. The Consolidated Statement of Operations and Accumulated Surplus shows the anticipated revenue shortfall in Fees and Charges, which were down 22% over 2019 due to COVID-19 and the related public health order restrictions and travel advisories that resulted in decreased air travel, a period of free public transit, the temporary closure and limited re-opening of recreational facilities and the loss of gaming revenues. Significant budget reductions reduced total operating expenditures for 2020 by \$10.1 million. The Consolidated Statement of Changes in Net Financial Assets shows Net Financial Assets at the end of 2020 are \$342.6 million. A significant portion of the increase in Net Financial Assets is attributable to a reduction of \$41.4 million in the Acquisition of Tangible Capital Assets and is the result of deferring non-essential capital projects to 2021. The Consolidated Statement of Cash Flows outlines the cash generated and used by the City's operations, capital, investing and financing activities.

In the Council adopted Financial principles & strategies a key component is Financial Policies and Performance Measures to aid in decision making. The Financial Health Indicators are a set of ratios that the City uses to measure the overall financial health of the City. The ratios provide comparative financial information for the year-ended 2019 using Local Government data for Municipalities with greater than 100,000 population and for Local Governments in the region. The ratios provide a way to measure how decisions made during the year have affected the sustainability, flexibility and vulnerability of the City. They also link the financial results to the overall economic and fiscal environment that the City operates in. The results show that the overall financial health of the City is still strong and is positioned to meet current and future financial obligations.

The Audit report outlined the areas of review that took place and provided a clean audit opinion stating that the City of Kelowna's consolidated financial statements present fairly, in all material respects, the financial position of the City of Kelowna as at December 31, 2020, and the results of operations, its changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Late in 2020, the City received \$7.9 million in emergency financial assistance through the Government of Canada and the Province of BC's Safe Restart plan and allocated \$2.5 million in 2020 and the remainder in 2021. The Kelowna Regional Transit System also received a Safe Restart grant of \$7.3 million late in 2020 of which \$5.9 million was the City's portion with the remainder distributed amongst the regional transit partners. These funds significantly contributed to the surplus of \$8.9M in the General Fund financial results. In a subsequent Council Report being received today the Council Audit Committee recommends the appropriation from surplus to reserve of \$8.5M and the appropriation of \$455k to accumulated surplus. Total accumulated surplus for the General Fund that is unallocated is now \$4.8M dollars at the 2020 year-end which represents approximately 3% of taxation demand.

The Water and Wastewater utility funds 2020 surplus was \$1.9M and \$7.1M respectively, these funds fall to the utilities accumulated surplus which is used for infrastructure replacement, mitigating fluctuations in utility billing rates to ensure that the City can continue to provide sustainable healthy and safe Water and Wastewater services to the Cities citizens.

The Airport had a deficit of \$1.4M due to the pandemic and related provincial health orders restricting travel, significantly reducing passenger volumes. The severity of the deficit was mitigated through the implementation of substantial measures to reduce costs.

The Internal Control branch of the City of Kelowna continued to build review programs to support both the Compliance Program and the Continuous Monitoring Program. The 2020 accomplishments and 2021 workplans were reported to the Audit Committee.

Conclusion:

The preparation for year-end and the audit process provides a detailed review and assessment of the City's Financial results for the year ended and compares those results to the previous year and the budget. The City's Strong Financial principles and strategies are reflected in the 2020 financial results which have positioned the City to continue supporting the community as we overcome the ongoing challenges of the COVID-19 pandemic.

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Financial/Budgetary Considerations:

External Agency/Public Comments:

Communications Comments:

Submitted by: S. Little, Corporate Finance Manager

Approved for inclusion:



G. Davidson, Divisional Director, Financial Services

CC: