

# Report to Council



**Date:** May 9, 2022  
**To:** Council  
**From:** City Manager  
**Subject:** 2022 Audit Committee Meeting Review  
**Department:** Financial Services

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## **Recommendation:**

THAT Council receives, for information, the report of the Audit Committee dated May 9, 2022, with respect to the 2022 Audit Committee Meeting Review.

## **Purpose:**

To provide a high-level review of the information provided to the Audit Committee during the meeting on April 28, 2022.

## **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 consolidated financial statements for the year ending December 31, 2021. Two themes emerged that contributed to the City's strong financial position. The first being the significant development activity in 2021. The City issued building permits with construction values of \$1 billion versus approximately \$500 thousand in 2020. The second was the lifting of COVID-19 restrictions and travel advisories, resulting in Fees and Charges revenue increasing by 20% over 2020.

The Consolidated Statement of Financial Position shows an \$81.3 million increase in Financial Assets offset by a \$12.5 million increase in Liabilities. The increase in Financial Assets resulted from a \$27.3 million increase in Cash and Cash Equivalents and a \$17.7 million increase in Accounts Receivable. These increases are mainly due to increased development activity. Developers have the option of paying their development cost charges in three installments, the first installment is due immediately with the remaining two-thirds set up as an accounts receivable and secured by a letter of credit.

Portfolio investments also increased \$32.9 million. The offsetting increase in liabilities was the result of an increase of \$40.8 million in Development Cost Charges and a decrease of \$29.7 million in Accounts Payable. The Statement of Operations and Accumulated Surplus shows the increase of \$24 million in Fees and Charges revenue. This includes permit and inspection revenue associated with the increase in development along with substantial increases for air travel, and lesser increases for public transit, recreational facility fees and parking due to the lifting of the COVID-19 restrictions and travel advisories. The Consolidated Statement of Changes in Net Financial Assets shows Net Financial Assets reflects an increase from 2020 of \$26.4 million. 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 performance measures, used as an 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 2020 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 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 health of the City remains 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, 2021, 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.

Development revenues were \$5.5 million more than budget due to unprecedented development activity and a surplus of \$1.3 million in Active Living and Culture due to reduced program offerings as a result of the COVID-19 pandemic were the primary contributors to the General fund surplus of \$8.8 million. In a subsequent Council Report being received today, the Council Audit Committee recommends the appropriation from surplus to reserve of \$8.7 million and the appropriation of \$87 thousand to accumulated surplus. Total accumulated surplus for the General Fund that is unallocated is now \$4.9 million at the end of 2021 and represents approximately 3% of taxation demand.

Surpluses for the Water and Wastewater utility funds in 2021 were \$2.6 million and \$3.5 million respectively. These funds fall to the utilities accumulated surplus, which is used for infrastructure replacement, mitigating fluctuations in utility billing rates and to ensure the City can continue to provide sustainable, healthy, and safe water and wastewater services to Kelowna citizens.

The Airport had a surplus of \$7.5 million primarily due to an increase in passenger numbers following the lifting of COVID-19 travel advisories.

The Internal Controls branch continued to build on its programs to monitor internal processes to mitigate the risks of fraud and error. The 2021 accomplishment and 2022 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 December 31, 2021 and compares those results to the previous year actuals and budget. Unprecedented development and rebounding from the challenges of the pandemic, particularly at the Airport, are reflected in the 2021 financial results. However, COVID-19 recovery is shifting from pandemic challenges, such as facility closures, to economic challenges including higher inflation levels, supply chain disruptions, and labour shortages. The City's strong financial position at the end of 2021 and the robust guidance provided by the Principles & Strategies for Financial Strength & Stability, positions the City to take advantage of opportunities and overcome challenges.

**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: