

# Report to Council



**Date:** May 8, 2023  
**To:** Council  
**From:** Chair, Audit Committee  
**Subject:** 2023 Audit Committee Meeting review and Financial Statements for the Year Ending December 31, 2022  
**Department:** Finance Director, Financial Services

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**Recommendation:**

THAT Council receives, for information, the Report from the Audit Committee dated May 8, 2023 with respect to the Consolidated Financial Statements and Auditor’s Report for the City of Kelowna for the year ending December 31, 2022;  
AND THAT the Consolidated Financial Statements and Auditor’s Report be reprinted in and form part of the City of Kelowna’s annual report.

**Purpose:**

To provide a high-level review of the information provided to the Audit Committee during the meeting on April 25, 2023, to present the Financial Statements to Council for acceptance per the legislative requirement, and to seek approval to include the Financial Statements in the annual report.

**Background:**

The Audit Committee was provided with an in-depth review of the consolidated financial statements for the year ending December 31, 2022. There was a key theme that emerged which contributed to the City’s strong financial position. The City approaching pre-COVID-19 levels of operations were reflected in the increases in operating revenue and expenses. As net cashflows increased, more cash could be spent on capital projects and also reinvested, maximizing our return on cash for future needs.

Consolidated Statement of Financial Position:

The Consolidated Statement of Financial Position shows the City’s Financial Assets of \$844M exceeding its liabilities of \$375M, indicating that the City has sufficient financial assets to settle its existing liabilities. The extent to which the City’s assets exceed liabilities represents liquidity and is a positive

indicator of the City's financial strength. In 2022, there was a \$91 million increase in Financial Assets offset by a \$33 million increase in Liabilities.

The increase in Financial Assets resulted largely from a \$96 million increase in portfolio investment, an \$8 million increase in Accounts Receivable, offset by a \$12 million decrease in Cash and Cash Equivalents. These increases are mainly due to increased cashflows generated from operations as we recover from the COVID-19 pandemic, as well as increased federal grant funding. With the increase of cashflows, our treasury branch was able to implement their investment strategy which increased our investment portfolio in order to maximize our return on cash. Accounts receivable increased mainly due to approved grant funding being recognized on work completed for associated projects but not received as at December 31, 2022.

The offsetting increase in liabilities was largely the result of an increase of \$12 million in Performance Deposits, an increase of \$24 million Deferred Development Cost Charges and a decrease of \$11 million in Long term debt.

Non-financial assets increased \$33 million largely due to an increase of capital acquisitions.

#### Statement of Operations and Accumulated Surplus:

The Statement of Operations and Accumulated Surplus shows an increase of \$46 million in revenues totaling \$425M and a \$24 million increase in expenses totaling \$334 million. This has resulted in an annual surplus of \$91 million. These increases are a reflection of operations approaching pre-COVID-19 levels.

Fees and charges revenues increased by \$20 million, which can largely be attributed to the Airport. An increase in passenger numbers from 2021 has resulted in an increase in Airport Improvement fees and terminal fees.

The increases in expenses such as salaries and wages, and facility maintenance and security contracts are also a product of the increase in operations across the organization. Cost escalations due to inflation and supply chain issues were another contributor to the increase in expenses for 2022.

Total operating revenues over expenses has resulted in an annual surplus of \$91M and has increased the accumulated surplus to \$2.4 billion. This surplus supports the City in meeting its needs such as the 10-year capital plan and 20-year servicing plan. It also places the City in a good position to deal with catastrophic events or take advantage of opportunities without negatively impacting taxpayers.

#### Consolidated Statement of Cash Flows:

The Consolidated Statement of Cash Flows outlines the cash generated and used by the City's operations, capital, investing and financing activities. These activities resulted in a net decrease of \$12 million in cash and cash equivalents, to end with balance of \$92 million.

#### Audit report:

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, 2022, 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.

**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, 2022 and compares those results to the previous year actuals and budget. An increase in operating activities, as the City approaches pre-COVID-19 levels of operation, are reflected in the favorable 2022 financial results. However, the City is still experiencing economic challenges including higher inflation levels and supply chain disruptions. The City's strong financial position at the end of 2022 enables the City to take advantage of opportunities and overcome challenges.

**Legal/Statutory Authority:**

The Community Charter section 167 "Annual Financial Statements" requires that municipal financial statements for a fiscal year must be presented to Council for its acceptance.

**Considerations not applicable to this report:**

*Internal Circulation:*

*Legal/Statutory Procedural Requirements:*

*Existing Policy:*

*Financial/Budgetary Considerations:*

*External Agency/Public Comments:*

*Communications Comments:*

Submitted by:

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