

# Report to Council



**Date:** May 13, 2024

**To:** Council

**From:** Chair, Audit Committee

**Subject:** 2024 Audit Committee Meeting review and Financial Statements for the Year Ending December 31, 2023

**Department:** Financial Services

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## **Recommendation:**

THAT Council receives, for information, the Report from the Audit Committee dated May 13, 2024 with respect to the Consolidated Financial Statements and Auditor's Report for the City of Kelowna for the year ending December 31, 2023;

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 30, 2024, 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:**

A detailed review of the draft City of Kelowna Financial Statements for the year ending December 31, 2023, Financial Health indicators, Auditor's report, City Reserves and Debt, Surplus Balances and Appropriations was undertaken on April 30, 2024 by the Audit Committee, the City of Kelowna Auditor, Grant Thornton LLP, and Financial Services staff.

## **Discussion:**

The Audit Committee was provided with an in-depth review of the consolidated financial statements for the year ending December 31, 2023. There was a key theme that emerged which contributed to the City's strong financial position. The continued increase in the City's 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 \$1.05B exceeding its liabilities of \$533M, 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 2023, there was a \$205 million increase in Financial Assets offset by a \$130 million increase in Liabilities.

The increase in Financial Assets resulted from a \$170 million increase in portfolio investments, a \$22 million increase in Accounts Receivable, and an increase of 17 million in Cash and Cash Equivalents. These increases are mainly due to increased cashflows generated from operations as well as increased federal grant funding. With the increase of cashflows, our treasury branch was able to continue their investment strategy which increased our investment portfolio in order to maximize our return on cash. Accounts receivable increased mainly due to an increase in Development Cost charge receivables from development applications received late in the year.

The offsetting increase in liabilities was the result of an increase of \$66 million in Deferred Development Cost charges, an increase of \$33M in Accounts Payable and Accrued Liabilities, and an increase of \$24 million in Deferred Revenue.

Non-financial assets increased \$94 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 \$85 million in revenues totaling \$509M and a \$37 million increase in expenses totaling \$372 million. This has resulted in an annual surplus of \$137 million. These increases are a reflection of the continued increase in operations resulting in growth of non-taxation revenues combined with the higher operational output.

Fees and charges revenues increased by \$20 million, which can largely be attributed to some high value permits and an increase in passenger numbers at the Airport resulting in an increase in Airport Improvement fees and terminal fees.

Interest revenue increased \$12M as a result of higher interest rates and continued investment strategy.

Government transfers increased \$27 million mainly due to the receipt of the Growing Opportunities Fund Grant.

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 was another contributor to the increase in expenses for 2023.

Total operating revenues over expenses has resulted in an annual surplus of \$137M and has increased the accumulated surplus to \$2.5 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 increase of \$17 million in cash and cash equivalents, to end with balance of \$108 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, 2023, 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, 2023 and compares those results to the previous year actuals and budget. An increase in operating activities are reflected in the favorable 2023 financial results. However, the City is still experiencing economic challenges such as higher inflation. The City's strong financial position at the end of 2023 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:**

Legal/Statutory Procedural Requirements:

Existing Policy:

Financial/Budgetary Considerations:

Consultation and Engagement:

Communications Comments:

Submitted by:

Mayor Dyas, Chair, Audit Committee

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Councillor L. Stack – Audit Committee  
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Grant Thornton LLP – Auditor - Mr. Tyler Neels, CPA, CA