

**City of Kelowna**  
**Open Audit Committee Meeting**  
**AGENDA**



Thursday, April 29, 2021  
1:00 pm  
Council Chamber  
City Hall, 1435 Water Street

	Pages
<b>1. Call to Order - Chair</b>	
<b>2. Confirmation of Minutes - 2020</b>	3 - 6
July 14, 2020	
<b>3. Financial Services Opening Remarks - Genelle</b>	
<b>4. 2020 Airport Financial Statements</b>	
<b>4.1. Auditor's Report and Airport Financial Statement - Tyler</b>	7 - 24
<b>4.2. Memorandum - Review of Airport Financial Statements - Shayne</b>	25 - 33
<b>5. 2020 Consolidated Financial Statements</b>	34 - 67
<b>5.1. Auditor's Report and Consolidated Financial Statements - Tyler</b>	68 - 75
<b>5.2. Memorandum - Review of Consolidated Financial Statements - Shelly</b>	76 - 83
<b>5.3. Notes to the Financial Statements and Supporting Schedules - Tyler</b>	84 - 109
<b>5.4. Financial Health Indicators - Shelly</b>	110 - 136
<b>6. Resolution Closing the Meeting to the Public</b>	
<p>    THAT this meeting be closed to the public pursuant to Section 90(1)(l) of the <i>Community Charter</i> for the Audit Committee to deal with matters relating to the following:</p>	
<ul style="list-style-type: none"><li>• Annual Report.</li></ul>	
<b>7. Adjourn to Closed Session</b>	
<b>8. Reconvene to Open Session</b>	

<b>9.</b>	<b>2020 Financial Statements</b>	
9.1.	Memorandum - Audit Committee Review of 2020 Surplus and Reserves - Shelly	137 - 144
9.2.	Memorandum -2020 Surplus from Operations - Genelle	145 - 147
<b>10.</b>	<b>Consideration of Financial Statements and Surplus Allocation - Chair</b>	
10.1.	Draft Report to Council - Audit Committee Review of 2020 Financial Statement and Recommendation	148 - 149
10.2.	Adoption of Financial Statements, Surplus Allocation Recommendation and Report to Council	
<b>11.</b>	<b>Termination</b>	



## City of Kelowna Audit Committee Open Meeting Minutes

Date:	Tuesday, July 14, 2020
Location:	Knox Mountain Meeting Room 4A City Hall, 1435 Water Street
Members Present	Mayor Colin Basran, Councillors Gail Given and Luke Stack
Staff Present	City Manager, Doug Gilchrist; City Clerk, Stephen Fleming; Divisional Director, Financial Services, Genelle Davidson*; Corporate Finance Manager, Shelly Little*
Staff participating remotely	Senior Airport Finance & Corporate Services Manager, Shayne Dyrdal*
Guest	Tyler Neels, Grant Thornton
Guest participating remotely	Vishaal Sharma*, Grant Thornton

(\* Denotes partial attendance)

### 1. Call to Order

Mayor Basran called the meeting to order at 1:03 p.m.

### 2. Confirmation of Minutes

Moved By Councillor Given

**R0001/07/14** THAT the Minutes of the open Audit Committee Meeting of April 30, 2019 with amendment to page 3, Item 9.1 add "managed" be confirmed as amended.

**Carried**

### 3. Financial Services Opening Remarks

Divisional Director, Financial Services:

- Provided opening remarks.
- Made comment on the later date of the 2020 Audit Committee meeting, due to COVID-19-related changes to Statutory financial deadlines.
- Provided comments on differences in the current audit process due to staff from both the City and Grant Thornton working from home.
- There are no late or corrections at year end required.

#### 4. 2019 Airport Financial Statements

##### 4.1 Auditor's Report and Financial Statements

###### Tyler Neels, Auditor

- Provided introductory remarks.
- Spoke to the role of the auditor.
- No significant adjustments with the YLW financials.

##### 4.2 Memorandum - Review of Airport Financial Statements

###### Senior Airport Finance & Corporate Services Manager:

- Financial statements are for 2019.
- Grounding of Max 8 reduced passenger count by 1.8%.
- Revenues up slightly due to higher fees.
- Provided an overview of the 2019 Financial Statements.
- This was a strong but not great year.

###### Moved By Councillor Given

R0002/07/14 THAT the Audit Committee, receive for information, the Airport Financial Statements, from the Senior Airport Finance & Corporate Services Manager.

Carried

#### 5. 2019 Consolidated Financial Statements

##### 5.1 Auditor's Report and Consolidated Financial Statements

###### Tyler Neels, Auditor

- Spoke to the Auditor's Report.
- With City assistance, conducted the Audit 100% remotely.
- Provided opening comments.

###### Staff

- Provided an overview.
- Responded to questions regarding the financials pertaining to the sale of the surplus garbage trucks.

###### City Manager:

- Made comment on keeping a closer eye on DCC balance and capital projects underway, to ensure there isn't too great a DCC surplus for outstanding construction projects whose future costs will be greater than any interest earned

##### 5.2 Memorandum - Review of Consolidated Financial Statements - Shelly

###### Staff:

- Reviewed the consolidated financial statements.

##### 5.3 Notes to the Financial Statements and Supplementary Financial Statements

###### Vishaal Sharma, CPA

- Provided overview of the notes.
- Implementation note 2 pushed out another year due to COVID-19 Committee note 9 question.

Divisional Director, Financial Services:

- Responded to question regarding risks from agreements not being honoured due to COVID-19.

#### **5.4 Financial Health Indicators**

Corporate Finance Manager:

- Displayed a PowerPoint presentation.
- Confirmed Fortis shares are recorded at book value.
- Confirmed indicator 6 assessed values increasing at greater rate than tax rate is increasing.
- Confirmed Own Source Revenue to Total Revenue includes Airport Improvement Fee.
- City well positioned for 2020.

### **6. Value for Money Reviews**

#### **6.1 2019 Completed Value for Money Reviews - Genelle**

Divisional Director, Financial Services:

- Referred to memo.
- Provided comments on the three audits brought forward to Council previously.
- Responded to question regarding the money for value audit process and reporting of results to Council.

### **7. Resolution Closing the Meeting to the Public**

Moved By Councillor Stack

0003/07/14 THAT this meeting be closed to the public to Section 90(1) (d)(f)(g) of the Community Charter for Council to deal with matters relating to the following:

- Security of Municipal Property
- Law Enforcement
- Litigation

Carried

### **8. Adjourn to Closed Session - Chair**

The meeting adjourned to a closed session at 2:42 p.m.

### **9. Reconvene to Open Session**

The meeting reconvened to an open session at 3:36 p.m.

### **10. 2019 Financial Statements**

#### **10.1 Memorandum - Audit Committee Review of 2019 Surplus and Reserves**

Corporate Finance Manager:

- Provided a review of divisional operational surpluses.
- Provided comments on various reserve fund balances.
- Responded to questions regarding snow removal costs at the Airport (under budget) vs Civic Operations (over budget).

Divisional Director, Financial Services:

- Spoke to 2019 surplus recommendations.

Moved By Councillor Stack

**R0004/07/14** THAT Council receives, for information, the Report from the Audit Committee dated July 27, 2020 with respect to the Consolidated Financial Statements and Auditor's Report for the City of Kelowna for the year ending December 31, 2019;

AND THAT Council approves the appropriation of \$8,113,748 of surplus generated from all general fund operations in 2019 to reserves and accumulated surplus as detailed in the Report from the Audit Committee dated July 27, 2020;

AND FURTHER THAT the Consolidated Financial Statements and Auditor's Report be reprinted in and form part of the City of Kelowna's annual report.

**Carried**

**10.2 Memorandum - 2019 Surplus from Operations - Genelle**

Moved By Councillor Given

**R0004/07/14** THAT the 2019 General Fund Surplus of \$8,113,748 generated from operating and capital programs be distributed as per the City Manager's memo of July 14, 2020.

**Carried**

**11. Consideration of Financial Statements and Surplus Allocation - Chair**

**11.1 Draft Report to Council - Audit Committee Review of 2019 Financial Statements and Recommendation**

**11.2 Adoption of Financial Statements, Surplus Allocation Recommendation and Report to Council**

Moved By Councillor Stack

**R0004/07/14** THAT Council receives, for information, the Report from the Audit Committee dated July 20, 2020 with respect to the Consolidated Financial Statements and Auditor's Report for the City of Kelowna for the year ending December 2019

AND THAT Council approves the appropriation of \$8,113,748 of surplus generated from all general fund operations in 2019 to reserves and accumulated surplus as detailed in the Report from the Audit Committee dated July 27, 2020

AND FURTHER THAT the Consolidated Financial Statements and Auditor's Report be reprinted in and form part of the City of Kelowna's annual report.

**Carried**

**12. Termination**

The meeting was declared at 4:05 p.m.

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Mayor Basran

sf/acm



2020

# Financial Statements Kelowna International Airport

Kelowna, British Columbia, Canada  
For the year ended December 31, 2020



# KELOWNA INTERNATIONAL AIRPORT

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# Independent Auditor's Report

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**Grant Thornton LLP**  
200 - 1633 Ellis Street  
Kelowna BC  
V1Y 2A8

T +1 250 712 6800  
F +1 250 712 6850  
www.GrantThornton.ca

To the members of the [Council of the City of Kelowna](#)

## Opinion

We have audited the financial statements of the Kelowna International Airport ("the Airport"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Airport as at December 31, 2020, and its results of operations, its changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Airport's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Airport or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Airport's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Airport's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Airport to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kelowna, Canada  
April 9, 2021

*Grant Thornton LLP*

Chartered Professional Accountants


# KELOWNA INTERNATIONAL AIRPORT

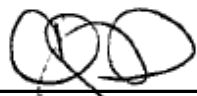
## Statement of Financial Position

As at December 31, 2020

	Actual 2020	Actual 2019
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 3,676,000	\$ 1,080,000
Accounts receivable	2,052,000	4,449,000
Portfolio investments	29,087,000	31,468,000
	<u>34,815,000</u>	<u>36,997,000</u>
<b>Liabilities</b>		
Accounts payable	2,904,000	3,916,000
Performance deposits	211,000	310,000
Deferred revenue	214,000	482,000
Mortgage payable (Note 3)	900,000	1,800,000
Long term payable (Note 4)	1,093,000	-
Debenture debt (Note 5)	14,062,000	16,153,000
	<u>19,384,000</u>	<u>22,661,000</u>
<b>Net Financial Assets</b>	<u>15,431,000</u>	<u>14,336,000</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	107,000	179,000
Inventory	210,000	277,000
Work in progress (Note 6)	6,557,000	7,047,000
Tangible capital assets (Note 7)	144,432,000	146,321,000
	<u>151,306,000</u>	<u>153,824,000</u>
<b>Accumulated Surplus (Note 8)</b>	<u>\$ 166,737,000</u>	<u>\$ 168,160,000</u>

Contingent liabilities and Commitments (Notes 9 and 10)

  
\_\_\_\_\_  
Sam Samaddar  
Airport Director

  
\_\_\_\_\_  
Genelle Davidson, CPA, CMA  
Divisional Director, Financial Services

*See accompanying notes to the financial statements.*

**KELOWNA INTERNATIONAL AIRPORT**  
**Statement of Operations and Accumulated Surplus**  
**For the Year Ended December 31, 2020**

	Budget 2020	Actual 2020	Actual 2019
<b>Revenue</b>			
Sale of services (Note 12)	\$ 22,244,000	\$ 11,536,000	\$ 22,217,000
Interest earned	158,000	301,000	660,000
Government transfers (Note 13)	216,000	1,149,000	297,000
Actuarial increase	-	194,000	128,000
Gain on disposal of tangible capital assets	-	-	7,000
	<u>22,618,000</u>	<u>13,180,000</u>	<u>23,309,000</u>
Airport Improvement Fee (Note 11)	23,810,000	7,351,000	16,609,000
	<u>46,428,000</u>	<u>20,531,000</u>	<u>39,918,000</u>
<b>Expenses (Note 14)</b>			
Administration	5,076,000	3,592,000	4,433,000
Interest	584,000	584,000	584,000
Terminal operations	5,380,000	5,445,000	6,267,000
Airport improvement fee	31,000	5,144,000	5,445,000
Airport policing	197,000	173,000	193,000
Groundside operations	3,036,000	3,305,000	3,437,000
Airside operations	4,295,000	3,711,000	4,188,000
Write-down of tangible capital assets	-	-	196,000
	<u>18,599,000</u>	<u>21,954,000</u>	<u>24,743,000</u>
<b>Annual Surplus (Deficit)</b>	<u>\$ 27,829,000</u>	<u>(1,423,000)</u>	15,175,000
Accumulated Surplus, beginning of year		<u>168,160,000</u>	<u>152,985,000</u>
<b>Accumulated Surplus, end of year</b>		<u>\$ 166,737,000</u>	<u>\$ 168,160,000</u>

*See accompanying notes to the financial statements.*

**KELOWNA INTERNATIONAL AIRPORT**  
**Statement of Changes in Net Financial Assets**  
**For the Year Ended December 31, 2020**

	Budget 2020	Actual 2020	Actual 2019
<b>Annual Surplus (Deficit)</b>	\$ 27,829,000	\$ (1,423,000)	\$ 15,175,000
Amortization of tangible capital assets	-	7,748,000	7,850,000
Acquisition of tangible capital assets	(87,793,000)	(5,369,000)	(14,773,000)
Disposal of tangible capital assets	-	-	12,000
Write-down of tangible capital assets	-	-	196,000
Change in inventory and prepaid expenses	-	138,000	6,000
<b>(Decrease) increase in Net Financial Assets</b>	(59,964,000)	1,094,000	8,466,000
Net Financial Assets, beginning of year	14,337,000	14,337,000	5,871,000
<b>Net Financial Assets, end of year</b>	<u>\$ (45,627,000)</u>	<u>\$ 15,431,000</u>	<u>\$ 14,337,000</u>

*See accompanying notes to the financial statements.*

# KELOWNA INTERNATIONAL AIRPORT

## Statement of Cash Flows

For the Year Ended December 31, 2020

	Actual 2020	Actual 2019
<b>Net inflow (outflow) of cash and cash equivalents related to the following activities:</b>		
<b>Operating</b>		
Annual (deficit) surplus	\$ (1,423,000)	\$ 15,175,000
Adjustment for non-cash items		
Amortization of tangible capital assets	7,748,000	7,850,000
Actuarial adjustment on debenture debt	(194,000)	(128,000)
Write-down of tangible capital assets	-	196,000
Decrease (increase) in assets		
Accounts receivable	2,397,000	(483,000)
Inventory and prepaid expenses	138,000	6,000
(Decrease) increase in liabilities		
Accounts payable	(1,012,000)	793,000
Performance deposits	(99,000)	5,000
Deferred revenue	(267,000)	323,000
	<u>7,288,000</u>	<u>23,737,000</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(5,369,000)	(14,773,000)
Proceeds from disposal of tangible capital assets	-	12,000
	<u>(5,369,000)</u>	<u>(14,761,000)</u>
<b>Investing</b>		
Change in investments	<u>2,381,000</u>	<u>(6,364,000)</u>
<b>Financing</b>		
Increase in long term payable	1,093,000	-
Repayment of mortgage payable	(900,000)	(900,000)
Repayment of debenture debt	(1,897,000)	(1,897,000)
	<u>(1,704,000)</u>	<u>(2,797,000)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>2,596,000</u>	<u>(185,000)</u>
Cash and cash equivalents, beginning of year	<u>1,080,000</u>	<u>1,265,000</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 3,676,000</u>	<u>\$ 1,080,000</u>

*See accompanying notes to the financial statements*

# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

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### 1. Organization and nature of operations

The Kelowna International Airport (“the Airport”) is controlled by the City of Kelowna (“the City”). The City operates the Airport pursuant to the provisions of a long-term lease with the Government of Canada entered into on January 1, 1969 (“the Ground Lease”). The current term of the Ground Lease expires on December 31, 2054.

On March 11, 2020 the World Health Organization officially declared the COVID-19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Airport has deployed initiatives in order to protect the health and safety of its employees and customers, support its customers, and mitigate the impact of the crisis while ensuring continuity of its operations. As a result of the aforementioned conditions, the Airport saw a significant decrease in flights, passenger volumes and revenues in 2020, and expects flights, passenger volumes and revenues to continue to be impacted well beyond 2021. As of this time, it is difficult to assess the impact of the pandemic on the Airport’s future results as it is dependent on the length and severity of the pandemic and corresponding economic recovery. Management will continue to monitor and assess the situation and respond accordingly.

These financial statements reflect the assets, liabilities and operations of the Airport. The financial statements have been prepared in accordance with Canadian public sector accounting standards.

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### 2. Significant accounting policies

#### Accrual accounting

The accrual method for reporting revenues and expenditures has been used.

#### Cash and cash equivalents

Cash and cash equivalents represent funds held in the City of Kelowna pooled funds. Cash and cash equivalents consist of cash and short-term investments with maturities of 90 days or less from the date of acquisition.

#### Government transfers

Government transfers are the major source of transfers to the Airport. Restricted government transfers are deferred and recognized as revenue in the year in which the related expenditures are incurred. Unrestricted transfers are recognized as revenue when received.

#### Work in progress

Work in progress represents capital projects under construction but not completed and is valued at cost.

#### Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts directly attributable to the acquisition, construction, development or betterment of the asset. The cost, less residual value of the asset, is amortized on a straight-line basis over its estimated useful life as follows:

Land improvements	25 years
Buildings	10 to 75 years
Infrastructure	10 to 75 years
Machinery and equipment	5 to 20 years

# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

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### 2. Significant accounting policies (continued)

#### Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair market value at the date of contribution.

#### Intangible assets

Intangible assets include works of art and historic assets. They are not recorded in these financial statements due to the uncertainty as to their value.

#### Inventories of supplies

Inventories of supplies include chemicals, fuel and supplies and are recorded at the lower of historical cost or replacement cost, with cost being determined using the weighted average cost method.

#### Municipal pension plan

The Airport's pension follows the guidelines of the Municipal Pension Plan which is administered by the Province of British Columbia for all British Columbia municipalities. The Airport and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula.

#### Portfolio investments

Portfolio investments are recorded at cost and are comprised of Municipal Finance Authority bonds and intermediate funds, provincial and bank issued accrual notes and debentures, and guaranteed investment certificates and deposit notes with maturities of 90 days or more from the date of acquisition.

#### Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the Airport
  - is directly responsible; or
  - accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

There are no liabilities to be recorded as at December 31, 2020



# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

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### 2. Significant accounting policies (continued)

#### Use of estimates

Management has made estimates and assumptions that affect the amounts reported in preparing these financial statements. The significant area requiring the use of management estimates relates to the determination of allowance for doubtful accounts, tangible capital assets' estimated useful lives, the related amortization, and liability for contaminated sites. Actual results could vary from those estimates.

#### Revenue recognition

Revenue is recognized in the period in which it is earned.

Investment income is recorded on an accrual basis and recognized when earned.

#### Ground Lease

The Ground Lease is accounted for as an operating lease.

#### Reserves for future expenditure

Reserves for future expenditure are non-statutory reserves which represent an appropriation of surplus for specific purposes. Transfers to reserves for future expenditure include funds to finance incomplete projects and accumulations for specific purposes.

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### 3. Mortgage payable

The Airport has a mortgage of \$900,000 (2019 - \$1,800,000) which is to be repaid in full by January 2021. The annual amount of principal repayment is \$900,000 per year. The mortgage does not bear interest and is secured in specific land.

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### 4. Long-term payable

The Airport has arranged for payment terms beyond a year for certain payables amounting to \$1,093,000, due to the significant impact of COVID-19. These payables will be paid in full by December 31, 2023 and are non-interest bearing.

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# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

### 5. Debenture debt

Debenture debt principal is reported net of sinking fund balances.

Local Area Bylaw	Issue No.	Interest Rate	Amount of Issue	Sinking Fund Balance	Net Debt	Due Date
9867	133	2.75	\$ 7,500,000	\$ 3,428,000	\$ 4,072,000	2025-10-02
9867	137	2.60	3,500,000	1,258,000	2,242,000	2026-04-19
9867	139	2.10	3,000,000	1,095,000	1,905,000	2026-10-05
9867	141	2.80	8,000,000	2,157,000	5,843,000	2027-04-07
			<u>\$ 22,000,000</u>	<u>\$ 7,938,000</u>	<u>\$ 14,062,000</u>	

Principal repayments required for the next five years are as follows:

2021	2022	2023	2024	2025
<u>\$ 1,897,000</u>	<u>\$ 1,897,000</u>	<u>\$ 1,897,000</u>	<u>\$ 1,897,000</u>	<u>\$ 1,897,000</u>

The City, on behalf of the Airport, has issued the debt instruments above through the Municipal Finance Authority (MFA). As a condition of these borrowings, a portion of the debenture proceeds is withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the Municipal Finance Authority. These demand notes are contingent in nature. The Debt Reserve and Demand Note balances are as follows:

	2020	2019
Cash deposits held by MFA	\$ 243,000	\$ 238,000
Demand notes held by MFA	1,021,000	1,021,000
	<u>\$ 1,264,000</u>	<u>\$ 1,259,000</u>

### 6. Work in progress

Work in progress is recorded at cost, is not amortized, and is comprised of:

	Buildings	Infrastructure	Machinery & Equipment	Total 2020	Total 2019
<b>Cost</b>					
Balance, beginning of year	\$ 3,560,000	\$ 3,371,000	\$ 116,000	\$ 7,047,000	\$ 2,929,000
Add: additions during the year	2,872,000	269,000	128,000	3,269,000	10,449,000
Less: transfers to tangible capital assets	(578,000)	(3,181,000)	-	(3,759,000)	(6,331,000)
<b>Balance, end of year</b>	<u>\$ 5,854,000</u>	<u>\$ 459,000</u>	<u>\$ 244,000</u>	<u>\$ 6,557,000</u>	<u>\$ 7,047,000</u>

# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

### 7. Tangible capital assets

	Land	Land Improvement	Buildings	Infrastructure	Machinery & Equipment	Total 2020	Total 2019
<b>Cost</b>							
Balance, beginning of year	\$ 15,820,000	\$ 13,276,000	\$ 64,620,000	\$ 81,641,000	\$ 55,944,000	\$231,301,000	\$220,887,000
Add: additions during the year	737,000	-	85,000	700,000	578,000	2,100,000	4,324,000
Add: transfers from work in progress	-	-	578,000	3,181,000	-	3,759,000	6,331,000
Less: disposals during the year	-	-	-	-	-	-	(241,000)
Balance, end of year	<u>16,557,000</u>	<u>13,276,000</u>	<u>65,283,000</u>	<u>85,522,000</u>	<u>56,522,000</u>	<u>237,160,000</u>	<u>231,301,000</u>
<b>Accumulated Amortization</b>							
Balance, beginning of year	-	8,044,000	27,533,000	33,458,000	15,945,000	84,980,000	77,163,000
Add: amortization	-	466,000	1,879,000	2,746,000	2,657,000	7,748,000	7,850,000
Less: accumulated amortization on disposals	-	-	-	-	-	-	(33,000)
Balance, end of year	<u>-</u>	<u>8,510,000</u>	<u>29,412,000</u>	<u>36,204,000</u>	<u>18,602,000</u>	<u>92,728,000</u>	<u>84,980,000</u>
<b>Net book value of tangible capital assets</b>	<u>\$ 16,557,000</u>	<u>\$ 4,766,000</u>	<u>\$ 35,871,000</u>	<u>\$ 49,318,000</u>	<u>\$ 37,920,000</u>	<u>\$144,432,000</u>	<u>\$146,321,000</u>

### 8. Accumulated surplus

	Reserves for future expenditure	General surplus	Investment in tangible capital assets	2020 Total	2019 Total
Accumulated surplus, beginning of year	\$ 30,337,000	\$ 2,407,000	\$ 135,416,000	\$ 168,160,000	\$ 152,985,000
Annual surplus (deficit)	236,000	5,896,000	(7,555,000)	(1,423,000)	15,175,000
Transfers	3,093,000	(3,093,000)	-	-	-
Acquisition of tangible capital assets	(5,297,000)	-	5,297,000	-	-
Retirement of debt	-	(2,803,000)	2,803,000	-	-
Accumulated surplus, end of year	<u>\$ 28,369,000</u>	<u>\$ 2,407,000</u>	<u>\$ 135,961,000</u>	<u>\$ 166,737,000</u>	<u>\$ 168,160,000</u>

# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

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### 9. Contingent liabilities

#### Pension liability

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2019, the plan has about 213,000 active members and approximately 106,000 retired members. Active members include approximately 41,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis.

The Airport paid \$328,000 (2019 - \$394,000) for employer contributions to the plan in fiscal 2020, which represents 4.00 per cent of the total plan contributions, while employees contributed \$261,000 (2019 - \$312,000) to the plan in fiscal 2020.

The next valuation will be as at December 31, 2021, with results available in 2022.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

#### Legal actions

The City is currently engaged in certain legal actions. The outcome and the possible effect on the Airport of these legal actions are not determinable at this time. Accordingly, no provision has been made in the accounts for these actions.

The amount of loss, if any, arising from these contingent liabilities will be recorded in the accounts in the period in which the loss is realized.

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### 10. Commitments

At December 31, 2020, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$5,125,000 (2019 - \$8,734,000).

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# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

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### 11. Airport improvement fees

The Kelowna International Airport entered into a Memorandum of Agreement ("the Agreement") dated September 23, 1997 with the Air Transport Association of Canada and all major carriers operating from the Airport. The Agreement provides for a consultative process with air carriers regarding the improvement to and expansion of airport facilities and the collection of airport improvement fees. AIF revenues can only be used to fund approved Airport infrastructure projects and associated financing costs. During the year ended December 31, 2020, the City recognized \$7,351,000 (2019 - \$16,609,000), in airport improvement fee revenue.

AIF fees were charged at \$15 per departing passenger for travel booked on or before March 31, 2019, for travel scheduled on or before April 7, 2019. AIF fees were charged at \$20 per departing passenger for travel booked on or after April 1, 2019, for travel scheduled on or after April 8, 2019. AIF fees were charged at \$25 per departing passenger for travel booked on or after February 19, 2020, for travel scheduled on or after March 1, 2020.

Airport improvement fee summary since implementation to December 31, 2020:

	<u>2020</u>	<u>2019</u>
Cumulative AIF revenue	\$ 159,755,000	\$ 152,404,000
Cumulative AIF expenditures	<u>164,411,000</u>	<u>158,050,000</u>
Deficiency of revenue over expenditures	<u>\$ (4,656,000)</u>	<u>\$ (5,646,000)</u>

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### 12. Sale of service by object

	<u>2020</u>	<u>2019</u>
Parking revenue	\$ 2,990,000	\$ 7,827,000
Airport landing fees	<u>2,074,000</u>	4,317,000
Airport terminal fees	<u>1,502,000</u>	3,558,000
Car rental concessions	<u>2,603,000</u>	3,428,000
Terminal concessions	<u>297,000</u>	863,000
Lease revenue	<u>1,403,000</u>	1,359,000
Other	<u>667,000</u>	865,000
	<u>\$ 11,536,000</u>	<u>\$ 22,217,000</u>

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## KELOWNA INTERNATIONAL AIRPORT

### Notes to the Financial Statements

December 31, 2020

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#### 13. Government transfers

Due to the completion or progress of the projects in 2020 there are no deferred revenue balances related to these grants. The Airport received and recorded as revenue the following grants:

	<u>Type of grant</u>	<u>Project</u>	<u>2020</u>	<u>2019</u>
Canadian Air Transport Security Authority	Restricted	Terminal Buildings - baggage handling operations	\$ 122,000	\$ 109,000
Province of British Columbia	Restricted	Freshet & Culvert	232,000	138,000
Federal Government	Restricted	Western Diversification	295,000	50,000
Province of British Columbia	Restricted	Provincial COVID-19 Relief	500,000	-
			<u>\$ 1,149,000</u>	<u>\$ 297,000</u>

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#### 14. Expenses by object

Expenses reported by object comprise:

	<u>2020</u>	<u>2019</u>
Materials and supplies	\$ 1,898,000	\$ 2,437,000
Amortization	7,748,000	7,850,000
Salaries and benefits	4,374,000	4,780,000
Contract and professional services	5,114,000	6,794,000
Policing and other Municipal services	1,699,000	1,529,000
Interest expense	584,000	584,000
Utilities	537,000	573,000
Write-down of tangible capital assets	-	196,000
	<u>\$ 21,954,000</u>	<u>\$ 24,743,000</u>

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# KELOWNA INTERNATIONAL AIRPORT

## Notes to the Financial Statements

December 31, 2020

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### 15. Budget data

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15<sup>th</sup> of each year. Subsequent amendments have been made by Council to reflect changes in the budget as required by law. Amortization of tangible capital assets was not included in the budget. The table below shows the reconciliation between the approved budget and the budget presented in these financial statements.

	<u>Budget Amount</u>
<b>Revenue</b>	
Operating budget	\$ 46,428,000
<b>Expenses</b>	
Operating budget	18,599,000
Capital budget	87,793,000
	<u>106,392,000</u>
Annual deficit per approved budget	(59,964,000)
Add: capital expenses	87,793,000
<b>Annual surplus per statement of operations</b>	<u><u>\$ 27,829,000</u></u>

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### 16. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation format adopted in the current year

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Kelowna International Airport

1-5533 Airport Way  
Kelowna, BC V1V 1S1

Tel 250-807-4300  
airport@kelowna.ca

[ylw.kelowna.ca](http://ylw.kelowna.ca)



# Memo



**Date:** April 29, 2021

**To:** Audit Committee

**From:** Genelle Davidson, Divisional Director, Financial Services

**Subject:** Audit Committee Review of Kelowna International Airport's December 31, 2020 Audited Financial Statements

Report Prepared by: Shayne Dyrdal, Senior Airport Finance and Corporate Services Manager

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## **Purpose of Kelowna International Airport's Financial Statements**

Consistent with the City of Kelowna's (the City) other business unit funds, Kelowna International Airport (the Airport or YLW) prepares financial statements in accordance with Canadian public sector accounting standards, which are consolidated into the City's consolidated audited financial statements.

In addition, a portion of the Airport is located on land that is leased from the Federal Government. In accordance with the amendment made in 1993 to clause 34 of the lease agreement between the Minister of Transport and the City of Kelowna, "*The [City of Kelowna] shall submit within 120 days after the [City of Kelowna's] fiscal year end, a statement of revenues and expenditures relating to the Airport for that period, a statement of surplus for that period, a statement of source and application of all funds including the revenues deposited in the Airport Fund for that period, and a balance sheet as of the end of that period all prepared according to the Canadian Institute of Chartered Accountants (CICA) generally accepted accounting principles, and audited according to CICA generally accepted auditing standards and certified by an independent auditor, who is a member or a partnership whose partners are members in good standing of the Canadian Institute of Chartered Accountants.*" As a result, the Airport's stand-alone financial statements are audited on an annual basis.

## **The Airport Financial Statements**

The Airport's Financial Statements include the financial results for each of the Airside, Groundside, Terminal and Airport Improvement Fee (AIF) funds and provide an aggregated view of the financial position and overall financial well-being of the Airport.

The Airport's financial statements consist of the:

- Statement of Financial Position;
- Statement of Operations and Accumulated Surplus;
- Statement of Changes in Net Financial Assets;
- Statement of Cash Flows; and
- Notes to the Financial Statements.

## Statement of Financial Position

The Statement of Financial Position presents the Airport's cumulative net financial assets, non-financial assets and accumulated surplus as at December 31, 2020 and December 31, 2019.

The Airport's net financial assets are equal to its financial assets less its liabilities. The Airport's financial assets consist of cash and cash equivalents, accounts receivable and portfolio investments, and are the financial resources available to discharge the Airport's existing liabilities and finance its future operations. The Airport's liabilities consist of accounts payable, performance deposits, deferred revenue, mortgage payable, long term payable and debenture debt.

The Airport's non-financial assets are employed to provide future services and consist of prepaid expenses, inventory, work in progress and tangible capital assets.

The Airport's accumulated surplus is the total that the Airport's cumulative revenues have exceeded its cumulative expenses. The accumulated surplus is equal to the sum of the net financial assets and non-financial assets.

### Net Financial Assets

The Airport's financial assets of \$34.8 million ("M") exceeded its liabilities of \$19.4M by \$15.4M at December 31, 2020. As a result, the Airport has sufficient financial assets to settle its existing liabilities as at December 31, 2020. The Airport's net financial assets increased \$1.1M from \$14.3M at December 31, 2019 to \$15.4M at December 31, 2020, mainly due to a \$2.6M increase in cash, a \$2.1M decrease in debenture debt, and a \$1.0M decrease in accounts payable, a \$0.9M decrease in mortgage payable, which were partially offset by a \$2.4M decrease in accounts receivable, a \$2.4M decrease in investments, and a \$1.1M increase in long term debt.

### Financial Assets

The Airport's financial assets have decreased by approximately \$2.2M from \$37.0M at December 31, 2019 to \$34.8M at December 31, 2020 due to the movements outlined below.

i. Cash and cash equivalents

Cash and Cash equivalents represent funds held in the City of Kelowna pooled funds either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The Airport's cash and cash equivalents have increased \$2.6M from \$1.1M to \$3.7M between December 31, 2019 and December 31, 2020. Further details on these movements have been included below under the discussion of the Airport's Statement of Cash Flows.

ii. Accounts receivable

The Airport's account receivables decreased approximately \$2.4M from \$4.4M at December 31, 2019 to \$2.0M at December 31, 2020. This was mainly due to a \$2.2M decrease in Trade receivables, which was mainly due to revenues being lower in 2020 than in 2019 as a result of the significant, negative impact of COVID-19 on the Airport's operations.

iii. Portfolio investments

Portfolio investments represent funds invested from the City of Kelowna's pooled funds and consist of Municipal Finance Authority bonds/intermediate funds, Provincial and bank issued accrual notes and debentures and guaranteed investment certificates and deposit notes. The Airport's portfolio investments decreased by \$2.4M between December 31, 2019 and December 31, 2020, as portfolio investments were used to help fund expenditures.

Liabilities

The Airport's liabilities have decreased \$3.3M from \$22.7M at December 31, 2019 to \$19.4M at December 31, 2020, due to the movements outlined below:

i. Accounts payable

The Airport's accounts payable decreased \$1.0M from \$3.9M at December 31, 2019 to \$2.9M at December 31, 2020 mainly due to a \$1.0M decrease in trade payables. The decrease in trade payables was mainly due to lower expenditures in 2020 resulting from the implementation of substantial measures to help reduce costs and mitigate the significant, negative impact of COVID-19.

ii. Performance deposits

The Airport's performance deposits mainly consist of deposits from airlines. The Airport's performance deposits decreased \$0.1M from \$0.3M to \$0.2M between December 31, 2019 and December 31, 2020. The \$0.1M reduction was mainly due to an airline utilizing a portion of its deposit to pay outstanding amounts due. Due to the significant reduction in operations as a result of COVID-19, the remaining deposit on hand remains sufficient.

iii. Deferred revenue

The Airport's deferred revenue consists of cash received for services not yet provided with regards to aircrew parking, taxi, shuttle and limo licenses, advertising, annual aircraft parking and leases. The Airport's deferred revenue decreased \$0.3M from \$0.5M at December 31, 2019 to \$0.2M at December 31, 2020, mainly due to there being deferred revenues related to grants at December 31, 2019, and there being no such deferred revenues at December 31, 2020.

iv. Mortgage payable

In 2016, the Airport acquired Shadow Ridge golf course in exchange for \$900k at that point in time and \$900k per year for five years. The \$900k decrease in the mortgage payable between December 31, 2019 and December 31, 2020 is due to the annual payment that was made in 2020 and the \$900k balance payable at December 31, 2020 represents the last annual payment to be made.

v. Long term payable

The Airport's new long term payable mainly consists of the 2020 municipal services and administration fees payable to the City of Kelowna (the Municipal Fee). Due to the significant, negative impact of COVID-19, \$1.0M of the \$1.5M 2020 Municipal Fee will be paid between 2021 and 2023. This long term payable is non-interest bearing.

vi. Debenture debt

The Airport's debenture debt consists of four debt issuances from the Municipal Finance Authority as outlined below. The \$2.1M decrease in debenture debt from \$16.2M at December 31, 2019 to \$14.1M at December 31, 2020 was due to the repayment of principal associated with debenture debt issued between 2015 and 2017.

Date of Issue	Term (Years)	Amount of Issue	Sinking Fund Balance	Net Debt at December 31, 2020
October 2015	10	7,500,000	3,428,000	4,072,000
April 2016	10	3,500,000	1,258,000	2,242,000
October 2016	10	3,000,000	1,095,000	1,905,000
April 2017	10	8,000,000	2,157,000	5,843,000
<b>Total</b>		<b>\$22,000,000</b>	<b>\$7,938,000</b>	<b>\$14,062,000</b>

Non-financial Assets

The Airport's non-financial assets have decreased \$2.5M from \$153.8M at December 31, 2019 to \$151.3M at December 31, 2020 due to the movements outlined below:

i. Prepaid expenses

The Airport's prepaid expenses decreased \$0.1M from \$0.2M to \$0.1M between December 31, 2019 and December 31, 2020. This decrease was mainly due to the significant reduction in expenditures combined with a change in the timing of payments, both of which were in response to the significant, negative impact of COVID-19.

ii. Inventory

The Airport's inventory consists of chemicals, fuel and supplies. Inventory decreased \$0.1M from \$0.3M at December 31, 2019 to \$0.2M at December 31, 2020 mainly due to inventory purchases being made just in time to help mitigate the significant, negative impact of COVID-19.

iii. Work in progress

The Airport's work in progress represents the cost of projects that are underway at year end and are not yet eligible to be capitalized to tangible capital assets. Work in progress decreased \$500k from \$7.0M to \$6.5M between December 31, 2019 and December 31, 2020 due to the addition of \$3.3M in construction costs, which was more than offset by the transfer of \$3.8M of costs to tangible capital assets upon the completion of construction projects during the year ended December 31, 2020.

iv. Tangible capital assets

Tangible capital assets consist of land, land improvements, buildings, infrastructure, and machinery and equipment. The Airport's tangible capital assets decreased \$1.9M from \$146.3M at December 31, 2019 to \$144.4M at December 31, 2020 due to additions of \$5.8M (transfer from work in progress represents \$3.8M) which were partially offset by the recognition of \$7.7M in amortization. The \$5.8M of additions mainly consisted of (i) the long-term and valet parking lots (\$2.8M), (ii) the purchase of land for future expansion (\$0.7M), (iii) the purchase of equipment (\$0.6M), (iv) capital upgrades for the air terminal building (\$0.4M), (v) capital upgrades for the combined operations building (\$0.4M), (vi) the pavement rehabilitation project (\$0.3M), (viii) the apron rehabilitation project (\$0.3M), and (ix) a number of smaller projects.

Accumulated Surplus

The Airport's accumulated surplus decreased by \$1.5M from \$168.2M at December 31, 2019 to \$166.7M at December 31, 2020. The Airport's cumulative revenues exceed its cumulative expenditures by \$166.7M as at December 31, 2020. This accumulated surplus has mainly been used to fund the Airport's capital development. Further details on the Airport's annual surplus are included below within the discussion on the Airport's Statement of Operations and Accumulated Surplus.

Statement of Operations and Accumulated Surplus

The Statement of Operations and Accumulated Surplus presents the Airport's revenues, expenditures, annual surplus and accumulated surplus for the years ended December 31, 2020 and December 31, 2019. This statement provides a summary of Airport's operations during 2020 and 2019.

It is important to note that, as legislated, the budget figures used for comparison are from the final budget that was approved in the second quarter of 2020 and does not include any transfers or amendments that were subsequently made.

Annual deficit

The Airport had an annual deficit of \$1.4M for the year ended December 31, 2020 due to expenditures of \$22.0M exceeding revenues of \$20.6M. The Airport's annual surplus decreased by \$16.6M between 2019 and 2020, as revenues decreased by \$19.4M while expenditures decreased by \$2.8M. It is important to note that the annual surplus includes costs resulting from the Airport's investment in its capital infrastructure including amortization, reimbursement of costs from the Federal Government, and the actuarial increase associated with the Airport's debenture debt. Excluding these costs, the Airport's operating annual surplus is \$5.0M, as shown below.

	Year ended December 31, 2020
Annual Surplus (deficit)	(1,423,000)
Add: Amortization	7,748,000
Less: Conditional transfers (reimbursement of capital costs)	(1,149,000)
Less: Actuarial increase for debenture debt	(194,000)
	<u>4,982,000</u>

The contribution of each of the AIF, Airside, Groundside and Terminal business segments to the Airport's adjusted annual surplus is shown below. Other revenues consist of interest income, government transfers, and the actuarial increase. Other expenditures consist of administration, interest expense and policing.

	AIF	Airside	Groundside	Terminal	Other	Total
Revenue	7,351,000	2,751,000	6,162,000	2,590,000	1,677,000	20,531,000
Expenditure	(5,144,000)	(3,711,000)	(3,305,000)	(5,445,000)	(4,349,000)	(21,954,000)
<b>Annual Surplus (Deficit)</b>	<b>2,207,000</b>	<b>(960,000)</b>	<b>2,857,000</b>	<b>(2,855,000)</b>	<b>(2,672,000)</b>	<b>(1,423,000)</b>

### Revenue

The Airport's revenues consist of sale of services, interest earned, transfers from the Government, actuarial increase and gain on the disposal of tangible capital assets. Total revenues decreased by \$19.5M from \$40.0M to \$20.5M between 2019 and 2020. The COVID-19 pandemic had a significant, negative impact on the Airport's operations and resulted in a 64% decrease in passenger numbers compared to 2019. This resulted in substantial decreases in revenues, as outlined in the following:

i. Sale of services

The Airport's sale of services of \$11.5M mainly consist of vehicle parking revenues (\$3.0M), car rental fees (\$2.6M), landing fees (\$2.1M), terminal fees (\$1.5M) and lease revenues (\$1.4M). Sale of services decreased \$10.7M between the year ended December 31, 2019 and December 31, 2020 mainly due to a \$4.8M decrease in parking revenues, a 2.2M decrease in landing fees, a \$2.1M decrease in terminal fees, and a \$0.8M decrease in car rental fees.

ii. Airport improvement fees

The Airport earned \$9.3M less in airport improvement fees (AIF) during the year ended December 31, 2020 than the year ended December 31, 2019 due to a 64% decrease in enplaned passengers compared to 2019, as a result of the COVID-19 pandemic.

iii. Interest earned

The Airport earned \$0.4M less in interest during the year ended December 31, 2020 than the year ended December 31, 2019 due to the decrease of interest rates.

iv. Government transfers

The Airport's transfers from the government increased \$0.9M between the year ended December 31, 2019 and the year ended December 31, 2020 mainly due to a provincial COVID-19 relief funding grant (\$0.5M) and an increase in the Western Diversification funding grant (\$0.2M).

v. Actuarial Increase

The actuarial increase for the Airport's debenture debt increased \$0.1M between the years ended December 31, 2019 and December 31, 2020.

## Expenses

The Airport's expenses consist of administration, interest, terminal operations, AIF, policing, groundside operations, airside operations and write-down of tangible capital assets. Total expenses decreased by \$2.7M from \$24.7M to \$22.0M between the years ended December 31, 2019 and December 31, 2020. During 2020, certain measures were implemented to help reduce operating expenditures and mitigate the significant, negative impact of COVID-19 on the Airport's business. Further details on the reductions are outlined in the following:

i. Administration

Administration expenditures decreased by \$0.8M between the years ended December 31, 2019 and December 31, 2020. Administration expenditures include the Municipal Fee which increased \$0.2M from \$1.3M in 2019 to \$1.5M in 2020. The remaining administration expenditures decreased \$1.0M from \$3.1M for the year ended December 31, 2019 to \$2.1M for the year ended December 31, 2020. The decrease in administration expenditures was mainly due to a \$0.5M decrease in professional and consulting services, combined with a \$0.2M decrease in marketing and media expenditures, which were the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

ii. Terminal expenditures

Terminal expenditures consist of expenditures associated with the operation and maintenance of the Airport's terminal building. Terminal expenditures decreased \$0.9M from \$6.3M in 2019 to \$5.4M in 2020 mainly due to a decrease in maintenance costs (\$0.7M), which was the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

iii. Airport Improvement Fee expenditures

Airport Improvement Fee expenditures decreased \$0.3M from \$5.4M in 2019 to \$5.1M in 2020 due to a decrease in amortization expense (\$0.3M).

iv. Groundside expenditures

Groundside expenditures consist of the costs associated with operating and maintaining the Airport lands outside of the airside area, excluding the terminal building. Groundside expenditures decreased \$0.1M from \$3.4M in 2019 to \$3.3M in 2020 mainly due to a decrease in fuel consumption, which was the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

v. Airside expenditures

Airside expenditures consist of the costs associated with operating and maintaining the Airport lands within the fenced area including the apron, taxiways and runway, but excluding the terminal building. Airside expenditures decreased \$0.5M from \$4.2M in 2019 to \$3.7M in 2020 mainly due to decreases in salaries and wages (\$0.2M), fuel consumption (\$0.1M), facility maintenance (\$0.1M), and purchase services (\$0.1M), which were the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

When expenditures are assessed for the Airport as a whole rather than by business segment, the \$2.7M decrease from \$24.7M in 2019 to \$22.0M in 2020 is mainly due to:

i. Materials and supplies

The cost of materials and supplies decreased \$0.5M between the years ended December 31, 2019 and December 31, 2020 mainly due to a \$0.3M decrease in fuel consumption, which was the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

ii. Amortization expense

Amortization expense decreased \$0.1M from \$7.9M in 2019 to \$7.8M in 2020, mainly due to a \$0.6M decrease in amortization for assets that were fully amortized in 2020, offset by a \$0.5M increase in amortization for new additions in 2020.

iii. Salaries and benefits

Salaries and benefits decreased \$0.4M from \$4.8M to \$4.4M between the years ended December 31, 2019 and December 31, 2020, which was the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

iv. Contract and professional services

Contract and professional services decreased \$1.7M between the years ended December 31, 2019 and December 31, 2020. This is mainly due to a decrease in facility maintenance services of \$0.8M, and a \$0.6M decrease in professional and consulting services, which were the result of measures implemented to help mitigate the significant, negative impact of COVID-19.

v. Policing and other Municipal services

Policing and other Municipal services increased \$0.2M from \$1.5M in 2019 to \$1.7M in 2020, due to the increase of the Municipal Fee.

### **Statement of Changes in Net Financial Assets**

The Airport's Statement of Changes in Net Financial Assets reconciles the Airport's net financial assets at the beginning and end of the year. The Airport's net financial assets increased \$1.1M from \$14.3M at December 31, 2019 to \$15.4M at December 31, 2020 mainly due to an annual deficit after depreciation of \$1.4M combined with \$5.4M in tangible capital assets, that were more than offset by \$7.8M in depreciation.

### **Statement of Cash Flows**

The Airport's Statement of Cash Flows outlines the cash generated and used by the Airport's operations, capital activities, investing activities and financing activities. The Airport's cash and cash equivalents increased \$2.6M between December 31, 2019 and December 31, 2020 as the Airport generated \$7.3M in cash from operations, increased the long term payable by \$1.1M, reduced the amount invested in portfolio investments by \$2.4M, acquired \$5.4M of tangible capital assets, repaid debenture debt principal of \$1.9M, and repaid \$0.9M of the Shadow Ridge golf course mortgage.



## **Notes to the Airport's Financial Statements**

### **Update on the COVID-19 Pandemic**

On March 11, 2020, the World Health Organization officially declared the COVID-19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Airport has deployed initiatives in order to protect the health and safety of its employees and customers, support its customers, and mitigate the impact of the crisis while ensuring continuity of its operations. As a result of the aforementioned conditions, the Airport saw a significant decrease in flights, passenger volumes and revenues in 2020, and expects flights, passenger volumes and revenues to continue to be impacted well beyond 2021. As of this time, it is difficult to assess the impact of the pandemic on the Airport's future results as it is dependent on the length and severity of the pandemic and corresponding economic recovery. Management will continue to monitor and assess the situation and respond accordingly.

### **Contingent Liability**

#### Pension Liability

During the year ended December 31, 2020, the Airport paid \$0.3M for employer contributions to the Municipal Pension Plan.

### **Commitments**

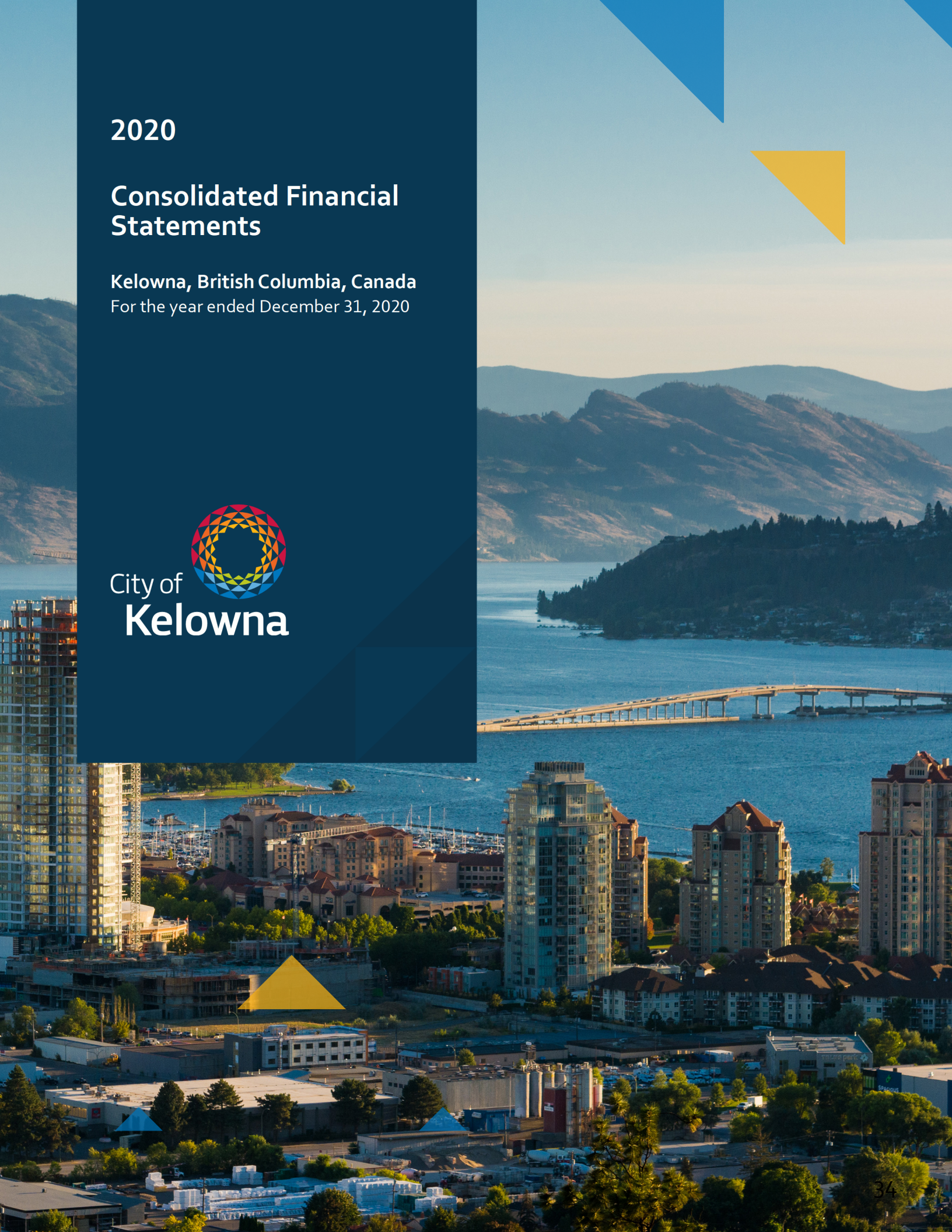
At December 31, 2020, the Airport had entered into commitments of \$5.1M.

**This concludes the review of the Airport's Audited Financial Statements for the years ended December 31, 2020 and December 31, 2019.**

2020

# Consolidated Financial Statements

Kelowna, British Columbia, Canada  
For the year ended December 31, 2020



CITY OF KELOWNA

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## Independent auditors' report

To the members of the Council of the City of Kelowna

### Opinion

We have audited the consolidated financial statements of the City of Kelowna ("the City"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

## Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kelowna, Canada  
April 29, 2021

Chartered Professional Accountants

**CITY OF KELOWNA**  
**Consolidated Statement of Financial Position**  
**As at December 31, 2020**  
**(in thousands of dollars)**

	<u>2020</u>	<u>2019</u>
<b>Financial Assets</b>		
Cash and cash equivalents (Note 3)	\$ 76,434	\$ 18,842
Accounts receivable (Note 3)	29,783	40,138
Accrued interest	2,134	2,444
Portfolio investments (Note 3)	547,799	549,192
Long term investments (Note 10)	6,000	6,000
Assets held for resale	10,171	5,072
	<u>672,321</u>	<u>621,688</u>
<b>Liabilities</b>		
Accounts payable	80,452	63,284
Performance deposits	27,299	28,063
Deferred revenue (Note 3)	45,510	45,404
Deferred development cost charges (Note 3)	83,754	79,100
Long term debt (Note 3)	92,653	105,615
	<u>329,668</u>	<u>321,466</u>
<b>Net Financial Assets</b>	<u>342,653</u>	<u>300,222</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	11,631	10,194
Inventory	1,290	1,318
Work in progress (Note 4)	24,092	61,556
Tangible capital assets (Note 4)	1,823,501	1,767,122
	<u>1,860,514</u>	<u>1,840,190</u>
<b>Accumulated Surplus (Note 5)</b>	<u>\$ 2,203,167</u>	<u>\$ 2,140,412</u>

Contingent liabilities and Commitments (Notes 8 and 9)  
Contractual rights (Note 16)

Genelle Davidson, CPA, CMA  
Divisional Director, Financial Services

Colin Basran  
Mayor, City of Kelowna

*See accompanying notes to the consolidated financial statements.*

**CITY OF KELOWNA**  
**Consolidated Statement of Operations and Accumulated Surplus**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	Budget 2020	Actual 2020	Actual 2019
<b>Revenue</b>			
Taxation (Note 6)	\$ 162,031	\$ 162,405	\$ 155,624
Fees and charges	140,627	118,146	150,516
Interest earned	5,766	13,199	14,316
DCC contributions	31,044	14,391	16,841
Government transfers (Note 7)	37,123	34,579	53,016
Other capital contributions	511	4,714	4,523
Gain on disposal of tangible capital assets	-	2,887	1,241
	<u>377,102</u>	<u>350,321</u>	<u>396,077</u>
<b>Expenses</b>			
General government	36,021	33,692	31,804
Protective services	68,627	65,063	65,549
Transportation	39,758	63,781	64,443
Recreation & cultural	38,975	41,707	45,460
Other services	23,144	24,031	27,711
Airport	18,599	21,907	24,502
Wastewater	14,147	21,913	22,549
Water	12,729	14,571	13,380
Loss on disposal of tangible capital assets	-	819	1,085
Write down of tangible capital assets	-	82	1,164
	<u>252,000</u>	<u>287,566</u>	<u>297,647</u>
<b>Annual Surplus</b>	<u>\$ 125,102</u>	<u>62,755</u>	98,430
Accumulated Surplus, beginning of year		<u>2,140,412</u>	2,041,982
<b>Accumulated Surplus, end of year</b>		<u>\$ 2,203,167</u>	<u>\$ 2,140,412</u>

*See accompanying notes to the consolidated financial statements.*

**CITY OF KELOWNA**  
**Consolidated Statement of Changes in Net Financial Assets**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	Budget 2020	Actual 2020	Actual 2019
<b>Annual Surplus</b>	\$ 125,102	\$ 62,755	\$ 98,430
Amortization of tangible capital assets	-	68,155	67,697
Proceeds from disposal of tangible capital assets	-	5,191	1,463
Gain on disposal of tangible capital assets	-	(2,067)	(156)
Write down of tangible capital assets	-	82	1,164
Acquisition of tangible capital assets	(238,049)	(88,013)	(129,376)
Contributions of tangible capital assets	-	(2,263)	(502)
Change in inventory and prepaid expenses	-	(1,409)	(6,700)
	<hr/>	<hr/>	<hr/>
<b>Increase (decrease) in Net Financial Assets</b>	(112,947)	42,431	32,020
Net Financial Assets, beginning of year	300,222	300,222	268,202
	<hr/>	<hr/>	<hr/>
<b>Net Financial Assets, end of year</b>	\$ 187,275	\$ 342,653	\$ 300,222
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*See accompanying notes to the consolidated financial statements.*



**CITY OF KELOWNA**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	<u>Actual 2020</u>	<u>Actual 2019</u>
<b>Net inflow (outflow) of cash and cash equivalents related to the following activities</b>		
<b>Operating</b>		
Annual surplus	\$ 62,755	\$ 98,430
Adjustment for non-cash items		
Amortization of tangible capital assets	68,155	67,697
Gain on disposal of tangible capital assets	(2,067)	(156)
Write down of tangible capital assets	82	1,164
Actuarial adjustment on long term debt	(2,159)	(3,266)
Contributions of tangible capital assets	(2,263)	(502)
Decrease (increase) in		
Accounts receivable	10,355	5,276
Inventory and prepaid expenses	(1,409)	(6,700)
Other assets	(4,789)	(2,475)
Increase (decrease) in		
Accounts payable	17,168	12,362
Deferred development cost charges	4,654	12,266
Other liabilities	(658)	1,505
	<u>149,824</u>	<u>185,601</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(88,013)	(129,376)
Proceeds from disposal of tangible capital assets	5,191	1,463
	<u>(82,822)</u>	<u>(127,913)</u>
<b>Investing</b>		
Change in investments	1,393	(53,376)
<b>Financing</b>		
Proceeds from issuance of long term debt	73	2,952
Repayment of long term debt	(10,876)	(13,411)
	<u>(10,803)</u>	<u>(10,459)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>57,592</b>	<b>(6,147)</b>
Cash and cash equivalents, beginning of year	18,842	24,989
<b>Cash and cash equivalents, end of year</b>	<b>\$ 76,434</b>	<b>\$ 18,842</b>
<b>Non-cash capital activities</b>		
Acquisition of tangible capital assets through contributions (Note 4)	\$ 2,263	\$ 502

*See accompanying notes to the consolidated financial statements.*

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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The notes to the consolidated financial statements are an integral part of the statements. They explain the significant accounting and reporting policies and principles underlying these statements. They also provide relevant supplementary information and explanations which cannot be conveniently expressed in the consolidated financial statements.

The consolidated financial statements are the responsibility of and prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS). The preparation of these consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

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**1. Significant accounting policies**

**Basis of presentation**

The City of Kelowna's resources and operations are segregated into General, Airport, Wastewater Utility, Water Utility, Development Cost Charges and Statutory Reserve Funds for accounting and financial reporting purposes. The consolidated financial statements include all the accounts of these funds. All material interfund transactions and balances have been eliminated within the consolidated financial statements.

On March 11, 2020 the World Health Organization officially declared the COVID19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The City has deployed initiatives in order to protect the health and safety of its employees, to support its customers, and mitigate the impact of the crisis while ensuring continuity of its activities. Although decreased flights and passenger volumes have significantly impacted the Airport, the impact to the rest of the City's operations has not been as significant. As of this time, it is difficult to assess the impact of the City's future results as it is dependent on the length and severity of the pandemic. Management will continue to monitor and assess the situation and respond accordingly.

**Accrual accounting**

The accrual method for reporting revenues and expenses has been used. Revenues are recognized in the period in which the transactions or events occur that give rise to the revenues. Expenses are recognized in the period in which the goods or services are acquired and a liability is incurred.

**Assets held for resale**

Assets held for sale are those expected to be sold within one year. They are valued at the lower of cost or expected net realizable value. Cost includes amounts for improvements to prepare the asset for sale.

**Inventory**

Inventory is valued at the lower of cost, determined principally on a weighted average and specific item basis, or replacement cost.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Municipal Finance Authority cash deposits and demand notes**

The City issues the majority of its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the Municipal Finance Authority. These demand notes are contingent in nature. The Debt Reserve and Demand Note balances are as follows:

	<u>2020</u>	<u>2019</u>
Cash deposits held by MFA	\$ 1,812	\$ 1,906
Demand notes held by MFA	<u>4,152</u>	<u>4,655</u>
	<u>\$ 5,964</u>	<u>\$ 6,561</u>

**Municipal pension plan**

The City of Kelowna's pension plan follows the guidelines of the Municipal Pension Plan which is administered by the Province of British Columbia for all British Columbia municipalities. The City and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan.

**Reserves for future expenditures**

Reserves for future expenditures are non-statutory reserves which represent an appropriation of surplus for specific purposes. Transfers to reserves for future expenditures include funds to finance incomplete projects and accumulations for specific purposes.

**Statutory reserve funds**

The use of these funds is restricted by the Community Charter and associated Municipal Bylaws. Statutory reserve funds are funded 100% by cash and portfolio investments.

**Intangible assets**

Intangible assets include works of art and historic assets located throughout the City. They are not reflected in these consolidated financial statements.

**Interest capitalization**

The City of Kelowna only capitalizes interest on projects being financed internally which will require debenture borrowing upon completion. Interest is calculated on monthly expenditures at the bank prime rate less 2%.

**Work in progress**

Work in progress represents capital projects under construction but not yet completed and are valued at cost.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Tangible capital assets**

The City records tangible capital assets, including assets held as work in progress or capital lease, at cost in the period they were acquired or when the asset is put into use.

All tangible capital assets are valued at cost which includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset.

Assets owned by the City but not paid for by the City including contributions, dedications, gifts and donations, are valued at fair value at the date of contribution, dedication, gift or donation, where fair value is reasonably determinable.

**Contributions of tangible capital assets**

Tangible capital assets received as contributions are recorded at their fair market value.

**Amortization**

The cost less residual value of the tangible capital assets is amortized on a straight-line basis over the useful lives of the asset as follows:

<u>Asset Type</u>	<u>Useful Life (years)</u>	<u>Asset Type</u>	<u>Useful Life (years)</u>
Parks infrastructure		Vehicles	
Playground equipment	15 - 20	Cars and light trucks	5 - 10
Artificial turf field	10 - 12	Fire trucks	15 - 20
Washrooms, concessions, picnic shelters	40 - 50	IT infrastructure	
Outdoor pools, spray pools	50 - 60	Hardware	4 - 5
Building structure	40 - 75	Software	5 - 10
Building improvements		Telephone system	7 - 10
Exterior envelope	30 - 40	Infrastructure	
HVAC systems	10 - 12	(dependent upon component and material)	
Roof	15 - 20	Electrical	20 - 25
Electrical, plumbing and fire	15 - 20	Water	10 - 100
Site works - asphalt, water and sewer lines, etc	10 - 100	Wastewater	10 - 100
Machinery & equipment		Drainage	10 - 100
General equipment	7 - 10	Transportation	10 - 100
Grounds equipment and machinery	10 - 15		
Heavy construction equipment	5 - 10		

Land and Work in Progress are not amortized.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Revenue recognition**

Taxation revenue

Annual levies for non-optional municipal services and general administrative services are recorded as taxes for municipal purposes. Levies imposed by other taxing authorities are not included as taxes for municipal purposes. Taxes are recognized as revenue in the year they are levied.

Through the BC Assessment appeal process taxes may be adjusted by way of supplementary roll adjustments. The effect of these adjustments on taxes are recognized at the time they are awarded.

Fees and charges revenue

Charges for transportation, environmental health, building permits, water, wastewater, and airport are included in this category. These revenues are recorded on the accrual basis and recognized as earned which is usually when services are provided or facilities are utilized.

Development Cost Charges (DCC) contributions

Development Cost Charges (DCC) contributions are recognized as revenue during the period in which the related costs are incurred.

Government transfers

Government transfers are recognized as revenue in the period that the transfer is authorized, eligibility criteria, if any, has been met by the City, and a reasonable estimate of the amount to be received can be made.

Investment income

The City's investments are disclosed in Note 3.

Investment income is recorded on the accrual basis and recognized when earned.

A portion of the City's investments are invested in pooled funds of the Municipal Finance Authority of British Columbia. Earnings on these funds are allocated to the members from time to time based on the market value of the pool. The City recognizes only its share of the realized earnings of the pool. This revenue is recorded as investment income and the amount is added to the cost base of the investment.

To the extent that investments have no stated rate of return, investment income is recognized as it is received.

**Expenses**

Expenses are recorded in the period in which the goods or services are acquired and a liability is incurred.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Liability for contaminated sites**

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all of the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the City is directly responsible; or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

In late 2019, the city acquired and accepted responsibility to remediate a site located on Harvey Avenue. In 2020, \$118,674 was spent on cleanup activities, primarily consisting of soil delineation and groundwater monitoring. Further work of \$35,282 was identified resulting in an increase to the liability and work will continue in 2021. A liability in the amount of \$46,609 (2019 - \$130,000) is based on contractor estimates of the work required to be undertaken, actual costs could be higher.

In early 2020 the city acquired and accepted responsibility to clean up contamination found at the site located at 1746 Water Street. Clean up activities took place in 2020 and further work will be undertaken in 2021 to remediate the site. This will consist of Groundwater and vapour monitoring and sampling, drilling investigation and monitoring to assess plume stability and seasonality. A liability in the amount of \$170,000 is based on contractor estimates of the work required to be undertaken, actual costs could be higher.

The City's liability of \$216,609 (2019 - \$130,000) for contaminated sites is included in Accounts payable.

**Use of estimates**

Management has made estimates and assumptions that affect the amounts reported in preparing these financial statements. Actual results could differ from the estimates. Significant areas requiring the use of management estimates relate to the determination of tangible capital assets estimated useful life and related amortization, allowance for doubtful accounts, contaminated site liabilities, landfill post closure costs and settlement costs associated with outstanding legal actions.

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**2. Future accounting changes**

**PS 3280 Asset retirement obligations**

This section revises and replaces the existing Section PS 3270 Solid Waste Landfill Closure and Post-Closure Liability. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

**PS 3160 Public private partnerships**

This section establishes standards on how to account for and report public private partnerships. This section applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

**PS 3400 Revenues**

This section establishes standards on how to account for and report on revenue. This section applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

**PS 3450 Financial instruments**

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted. Adoption of this standard requires corresponding adoption of PS 1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation and PS 3041 Portfolio Investments in the same fiscal period.

- **PS 1201 Financial Statement Presentation**

This section revises the general reporting principles and standards for the disclosure of information in the financial statements. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

- **PS 2601 Foreign Currency Translation**

This section revises and replaces the existing Section PS 2600 Foreign Currency Translation. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

- **PS 3041 Portfolio investments**

This section revises and replaces the existing Section PS 3040 Portfolio investments. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**3. Financial assets and liabilities**

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term investments with maturities of 90 days or less from the date of acquisition.

**Accounts receivable**

Accounts receivable are recorded net of allowance and are comprised of the following:

<u>Type of receivable</u>	<u>2020</u>	<u>2019</u>
Property tax	\$ 5,718	\$ 4,888
Trade receivables	11,559	13,732
Due from government	1,058	1,448
Due from provincial government	1,285	6,613
Due from regional government	41	146
Utilities	5,344	5,333
Deferred development cost charges	4,778	7,978
	<u>\$ 29,783</u>	<u>\$ 40,138</u>

**Portfolio investments**

Portfolio investments are recorded at cost and are comprised of the following:

<u>Type of investment</u>	<u>2020</u>	<u>2019</u>
Municipal Finance Authority investment funds	\$ 130,507	\$ 108,795
Provincial and bank issued bonds	94,713	100,826
Publicly traded shares	69,016	65,232
Guaranteed Investment Certificates and deposit notes	253,563	274,339
Total Portfolio investments	<u>\$ 547,799</u>	<u>\$ 549,192</u>

The quoted market value of the publicly traded shares at December 31, 2020 was \$103.92 million (2019 - \$103.86 million).

**Operating line of credit**

The City has an operating line of credit with the Royal Bank of Canada for an authorized amount of \$5.0 million, bearing interest at bank prime rate less 0.50%. At December 31, 2020 the balance outstanding was \$nil (2019 - \$nil).



**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

**Deferred revenue**

The City records deferred revenue for funds received in advance of services not yet rendered and is recognized into revenue during the period in which the service is provided. The City also records deferred revenue when a contract specifies how the resources are to be used and therefore funds received in advance are deferred until the period in which the requirements are met. Because these funds are restricted in nature they are shown as a liability.

<u>Deferred Revenue by Type</u>	<u>2019</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2020</u>
Tax prepayments	\$ 20,779	\$ 35,134	\$ 114	\$ 37,361	\$ 18,666
Construction	14,935	2,363	121	1,748	15,671
Grants	145	494	1	21	619
Other	5,301	10,825	10	9,851	6,285
Local Area Service	4,244	432	-	407	4,269
<b>Total</b>	<b>\$ 45,404</b>	<b>\$ 49,248</b>	<b>\$ 246</b>	<b>\$ 49,388</b>	<b>\$ 45,510</b>

**Deferred development cost charges (DCC)**

The City collects development cost charges to pay for a proportionate share of infrastructure related to new growth. In accordance with the Local Government Act, these funds must be deposited into a separate reserve fund. Because these funds are externally restricted in nature they are shown as a liability.

	<u>2019</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2020</u>
Parks	\$ 22,114	\$ 5,727	\$ 526	\$ 7,023	\$ 21,344
Roads	50,642	7,864	1,196	2,055	57,647
Water	14,422	336	340	256	14,842
Wastewater	(8,078)	3,300	(244)	5,057	(10,079)
<b>Total Deferred DCC</b>	<b>\$ 79,100</b>	<b>\$ 17,227</b>	<b>\$ 1,818</b>	<b>\$ 14,391</b>	<b>\$ 83,754</b>

**Long term debt**

Sinking fund installments and mortgage payments on net outstanding debt and loans payable over the next five years and thereafter are as follows:

	<u>Total</u>
2021	\$ 11,036
2022	10,395
2023	9,149
2024	8,711
2025	8,741
2026 and thereafter	44,621
<b>Total</b>	<b>\$ 92,653</b>

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**(all tabular amounts reported in 000's of dollars)**

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Total outstanding debt issued was \$166.0 million and total debt payable at December 31, 2020 was \$92.7 million (2019 - \$105.6 million).

Schedule 3 provides a breakdown of long term debt.

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**4. Tangible capital assets (TCA) and work in progress**

	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Work in</b>	<b>Tangible capital</b>	<b>Work in</b>	<b>Tangible capital</b>
	<b>progress</b>	<b>assets (NBV)</b>	<b>progress</b>	<b>assets (NBV)</b>
Land	\$ -	\$ 339,192	\$ -	\$ 319,486
Land improvements	86	35,243	116	36,697
Buildings	9,015	188,373	5,132	191,499
Infrastructure	13,420	1,180,216	55,335	1,140,750
Machinery and equipment	1,571	80,477	973	78,690
	<b>\$ 24,092</b>	<b>\$ 1,823,501</b>	<b>\$ 61,556</b>	<b>\$ 1,767,122</b>

Contributions received in 2020 include:

<b><u>Type of contribution</u></b>	<b>2020</b>	<b>2019</b>
Land	\$ 2,263	\$ 420
Infrastructure	-	82
Total Contributed tangible capital assets	<b>\$ 2,263</b>	<b>\$ 502</b>

Schedule 1 provides a break down of tangible capital assets and work in progress.

During the year, tangible capital assets with a cost of \$82,082 (2019 - \$1,164,262) were written off due to impairment.

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**CITY OF KELOWNA**  
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**5. Accumulated surplus**

	<b>Reserves for Future Expenditures</b>	<b>Statutory Reserves</b>	<b>Fund Surpluses</b>	<b>Investment in Tangible Capital Assets</b>	<b>Total 2020</b>	<b>Total 2019</b>
Accumulated surplus, beginning of year	\$ 266,878	\$ 88,356	\$ 59,209	\$ 1,725,969	\$ 2,140,412	\$ 2,041,982
Annual surplus (deficit)	4,933	2,521	100,340	(45,039)	62,755	98,430
Transfers	3,117	2,951	(86,504)	80,436	-	-
<b>Accumulated surplus, end of year</b>	<b>\$ 274,928</b>	<b>\$ 93,828</b>	<b>\$ 73,045</b>	<b>\$ 1,761,366</b>	<b>\$ 2,203,167</b>	<b>\$ 2,140,412</b>

Accumulated Surplus detail as follows:

<b>Description</b>	<b>Balances, Beginning of Year</b>	<b>Transfer From</b>	<b>Transfer To</b>	<b>Annual Surplus</b>	<b>Balances, End of Year</b>
<b><u>Non-Statutory Reserves</u></b>					
General Fund reserve	\$ 203,538	\$ 18,118	\$ 24,842	\$ 4,554	\$ 214,816
Airport Fund reserve	30,336	12,247	10,043	236	28,368
Waste Water Fund reserve	10,677	1,629	1,875	24	10,947
Water Fund reserve	22,327	7,941	6,292	119	20,797
	<u>266,878</u>	<u>39,935</u>	<u>43,052</u>	<u>4,933</u>	<u>274,928</u>
<b><u>Statutory Reserves</u></b>					
Parking reserve	6,490	2,148	2,985	146	7,473
Land reserve	10,550	6,653	5,149	250	9,296
Capital works, machinery and equipment reserve	71,316	24,914	28,532	2,125	77,059
	<u>88,356</u>	<u>33,715</u>	<u>36,666</u>	<u>2,521</u>	<u>93,828</u>
<b><u>Surplus by Fund</u></b>					
General Fund surplus	4,323	113,590	48,784	73,746	13,263
Airport Fund surplus	2,407	8,699	2,803	5,896	2,407
Waste Water Fund surplus	40,903	12,306	8,739	10,700	48,036
Water Fund surplus	11,576	12,235	-	9,998	9,339
Accumulated Surplus	<u>59,209</u>	<u>146,830</u>	<u>60,326</u>	<u>100,340</u>	<u>73,045</u>
<b><u>Investment in Non Financial Assets</u></b>					
Investment in tangible capital assets	<u>1,725,969</u>	<u>10,876</u>	<u>91,312</u>	<u>(45,039)</u>	<u>1,761,366</u>
<b>Accumulated Surplus</b>	<b>\$ 2,140,412</b>	<b>\$ 231,356</b>	<b>\$ 231,356</b>	<b>\$ 62,755</b>	<b>\$ 2,203,167</b>

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**6. Taxation**

Taxation revenue comprises the following amounts raised less transfers to other governments:

	<u>2020</u>	<u>2019</u>
<b>Taxes collected</b>		
Property taxes	\$ 239,997	\$ 243,487
Local improvement levies	146	146
Frontage tax - water	1,548	1,527
Specified sewer area recoveries	1,292	1,358
Grants in lieu of taxes	655	583
Levies - library	6,797	6,389
Levies - other	1,282	1,168
	<u>251,717</u>	<u>254,658</u>
<b>Less transfers to other governments</b>		
Province of BC (school taxes)	60,941	72,384
BC Assessment Authority	2,262	2,038
Regional Hospital District	13,105	12,147
Regional District of Central Okanagan	13,004	12,465
	<u>89,312</u>	<u>99,034</u>
<b>Net taxes available for municipal purposes</b>	<u>\$ 162,405</u>	<u>\$ 155,624</u>

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**7. Government transfers**

Government transfers are the major source of transfers to the City. Government transfers received are for completed projects that meet the required criteria as set out by the Government body providing the funding. Government transfers do not include grants in lieu of taxes received from the Federal and Provincial governments. Due to the completion of projects in 2020 there are no deferred revenue balances related to these transfers. In 2020 the City received and recorded as revenue the following transfers:

	<u>2020</u>	<u>2019</u>
<b>Operating transfers</b>		
Federal	\$ 176	\$ 166
Provincial	27,078	20,756
Other governments	224	226
	<u>27,478</u>	<u>21,148</u>
<b>Capital transfers</b>		
Federal	357	16,801
Provincial	6,720	15,067
Other governments	24	-
	<u>7,101</u>	<u>31,868</u>
<b>Total Government transfers</b>	<u>\$ 34,579</u>	<u>\$ 53,016</u>

**COVID-19 Safe Restart Grant for Local Governments**

The COVID-19 Safe Restart Grant was received from the Provincial Government in 2020 and is included above under Operating transfers, Provincial. The schedule below provides disclosure of funds received, spent and remaining for the year. A balance at the end of the year represents unused funds received and is included in the General fund reserve.

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ -	\$ -
COVID-19 Safe Restart Grant received	7,884	-
Less funds used to support:		
Airport revenue losses	(500)	-
Gaming revenue losses	(1,517)	-
Corporate preparedness planning	(464)	-
	<u>(2,481)</u>	<u>-</u>
Balance, end of year	<u>\$ 5,403</u>	<u>\$ -</u>

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**(all tabular amounts reported in 000's of dollars)**

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**8. Contingent liabilities**

**Regional District of Central Okanagan**

Regional District debt is, under the provisions of the Local Government Act, a direct, joint and several liability of the District and each member municipality within the District including the City of Kelowna.

The loan agreements with the Regional District of Central Okanagan and the Municipal Finance Authority provide that if at any time the scheduled payments provided for in the agreements are not sufficient to meet the Authority's obligation with respect to such borrowing, the resulting deficiency becomes a liability of the member municipalities.

**Pension liability**

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2019, the plan has about 213,000 active members and approximately 106,000 retired members. Active members include approximately 41,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis.

The City of Kelowna paid \$7.8 million (2019 - \$7.5 million) for employer contributions while employees contributed \$6.5 million (2019 - \$6.3 million) to the plan in fiscal 2020.

The next valuation will be as at December 31, 2021, with results available in 2022.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

**Post employment benefits and compensated absences**

The City of Kelowna does not accrue expenses for post-employment benefits and compensated absences. Post-employment benefits are benefits expected to be provided after employment but before retirement to employees and their beneficiaries. Compensated absences are benefits for employee absences for which employees will be paid (i.e. sick leave). City employees retiring do not receive any post-employment related benefits that either vests or accrues over the period of employment. Compensated absences: such as sick leave benefits do not accrue and are not vested. The City recognizes the expense for compensated absences when the event obligates the City to pay.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**(all tabular amounts reported in 000's of dollars)**

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**Legal actions**

The City of Kelowna is currently engaged in certain legal actions, the outcome of which is not determinable at this time. Accordingly, no provision has been made in the accounts for these actions.

The amount of loss, if any, arising from these contingent liabilities will be recorded in the accounts in the period in which the loss is realized. The City of Kelowna has insurance policies and financial reserves to offset associated risks.

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**9. Commitments**

**Agreements, contracts and purchase orders**

The City has entered into various agreements and contracts for services and construction with periods ranging from one to five years.

The City has purchase orders open as at December 31, 2020 which have not been recorded in the accounts. The balance of these open purchase orders is not determinable at this time. The funding for the majority of these obligations has been set aside in reserves for future expenditures. These amounts will be recorded in the accounts in the period the goods and services, to which they relate, are received.

**Landfill closure and post closure costs**

As required by PSAS and regulated by the Ministry of Environment & Climate Change Strategy, the City has agreed to obligations regarding the operation of the landfill site. These obligations include recognition of closure and post-closure liability. As currently engineered, and based on current waste disposal patterns, the landfill has a remaining life expectancy of 88 years. The estimated length of time needed for post-closure is 80 years.

The present value of future cash flows for the expected landfill closure and post-closure care costs is estimated to be \$30.7 million based on a Design, Operations and Closure Plan (DOCP) completed in 2018.

The City's liability for these landfill closure and post-closure care cost expenditures is recognized as the landfill site's capacity is used. The reported liability of \$4.3 million (2019 - \$4.1 million) represents the portion of the estimated total expenditure recognized as at December 31, 2020. The remaining capacity of the landfill site is estimated at 27.0 million tonnes which is 90% of the site's total capacity.

The liability and annual expenditure is calculated based on the ratio of current usage to the total capacity of the site and the discounted estimated future cash flows associated with closure and post-closure activities using an inflation rate of 0.96% and discount rate of 2.25%.

The reported liability is based on estimates and assumptions with respect to events extending over the remaining life of the landfill. Future events may result in significant changes to the estimated remaining useful life, estimated total costs, total or used capacity and the estimated liability. These would be recognized prospectively as a change in estimate when applicable.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**YMCA of Okanagan Association loan guarantee agreement**

The City has, under the terms of the partnering agreement between the City of Kelowna and YMCA of Okanagan Association, guaranteed repayment in the event that the YMCA of Okanagan Association defaults on a \$1.8 million, 20-year loan issued in 2001. Under the agreement the City shall resume operation of the facility and assume responsibility for the repayment of the debt incurred by the YMCA of Okanagan Association. During 2010 an amendment was made to the agreement for additional financing of \$700,000 for a 20-year term. Both loans have an interest rate of lender's prime less 0.5%. As at December 31, 2020, the outstanding loan balance was \$560,010 (2019 - \$669,382). The City does not expect to make any payments on the guarantee and no amounts have been accrued in the financial statements.

**Multi-Purpose Facility Public/Private Partnership**

The City of Kelowna, subject to the terms and conditions of the Tripartite Agreement between the City of Kelowna, Royal Bank of Canada and RG Arenas (Kelowna) Ltd., RG Properties Ltd., Prospero Canadian Land Investment Fund Ltd. group of companies, committed to the annual purchase of community use time at the Multi-Purpose Facility with the option to make a lump sum payment before the 15th day of one of year 6, 11, 16, 21 or 26, commencing with the year of substantial completion (November 10, 1999).

The City chose to exercise its option to make a lump sum payment of \$6.7 million in 2019 (Year 21) as prepayment for community use time with no further amounts payable under the Tripartite Agreement until November 9, 2029.

The balance of \$6.1 million in prepaid community use time is included in Prepaid expenses.

**Royal Canadian Mounted Police Services**

The Province of British Columbia and the Federal Government have an agreement with the Royal Canadian Mounted Police to provide police services for various municipalities in the Province, including the City of Kelowna. This agreement has a 20 year term expiring on March 31, 2032.

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**10. Long term investments**

**Kelowna Developments Ltd.**

The investment in Kelowna Developments Ltd., a wholly owned subsidiary, is carried at its cost of \$2. The company is inactive with no assets or liabilities and is being retained for potential future use.

**RG Arenas (Kelowna) Ltd.**

The investment in preferred shares in RG Arenas (Kelowna) Ltd. is carried at its cost of \$6.0 million. The shares were purchased under the terms of the Preferred Share Agreement between the City of Kelowna, RG Arenas (Kelowna) Ltd., RG Properties Ltd., and Prospero Canadian Land Investment Fund Ltd. and represents the City's investment in the Multi-Purpose facility. The City has the option to purchase the Facility for the sum of \$1 and the surrender of the preferred shares within the 10 year period beginning 30 years and one week from the date of Substantial Completion of the Facility, that being November 19, 2029. If exercised, the Facility will be conveyed to the City free and clear of all liens, charges and encumbrances.

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**(all tabular amounts reported in 000's of dollars)**

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**11. Letters of credit**

In addition to the performance deposits reflected in cash balances, the City is holding irrevocable Letters of Credit in the amount of \$50.0 million (2019 - \$52.7 million) which were received from depositors to ensure their performance of works to be undertaken within the City. These amounts are not reflected in the financial statements but are available to satisfy any liabilities arising from non-performance by the depositors. Included in the \$50.0 million, the City is holding irrevocable Letters of Credit in the amount of \$6.2 million (2019 - \$9.1 million) which are received from developers to ensure payment of development cost charges in future years.

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**12. Trust funds**

In accordance with PSAS, trust funds are not included in the City's consolidated financial statements. The City administers a Cemetery Maintenance Fund for the perpetual care and maintenance of the City owned and operated cemetery. As at December 31, 2020 the Trust Fund balance is \$3.2 million (2019 - \$3.0 million).

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**13. Segmented information**

The City of Kelowna is connecting communities and providing a multitude of services to the citizens of Kelowna. The City's operations and activities are organized and reported by funds and departments. The General Fund reports on operations, funded primarily by property taxes, which include services provided by the City such as general government, protective services, transportation services, recreation and cultural services, as well as public health, and environmental and development services. The City also operates its own airport and City utilities comprised of the wastewater and water systems that are self-sustaining operations. Operating results reported by the following segments are included in Schedule 2.

**General government**

General Government operations are primarily funded by property taxation and business tax revenues. The expenses within the department are for executive and legislative costs, general administration, and other general government areas such as community service grants and rental property operating costs within the municipality. The general revenue reported under the department includes revenues associated with taxation, business tax revenues and senior government payments in lieu of taxes. These revenues have not been apportioned to other departments supported by the General Fund.

**Protective services**

Protective services are comprised of police services provided by the Royal Canadian Mounted Police, fire protection services, building inspection services and bylaw enforcement.

Police services include administration, crime investigation and prevention, traffic, prisoner custody and court liaison expenses.

The fire department is responsible for effective fire protection and public safety services to the City. This includes fire suppression and rescue, prevention and investigation, specialty rescue/first medical responses and fire safety inspections.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**Transportation services**

Transportation services are responsible for the delivery of municipal public works services related to the planning, development and maintenance of streets and roads, bridges, drainage systems, street lights, traffic lights and signals, parking lots and on-street parking, and public transit as well as maintenance of workshops, yards and other buildings. The mandate is to provide a safe, efficient, environmentally-sensitive and cost-effective transportation network.

**Recreation and cultural services**

Recreation and cultural services provide services related to recreation, leisure and culture including administration and program costs as well as grounds and building maintenance. Facilities managed within this area include parks and playgrounds, arenas, swimming pools, beaches, boat launches, stadiums as well as community and seniors centers. The H2O Adventure & Fitness Centre, Parkinson Recreation Centre, Kelowna Community Theatre, Kelowna Museum, Kelowna Library, Kelowna Art Gallery and the Rotary Centre for the Arts are some of the larger facilities included.

**Other services (Public Health/Environmental/Development services)**

Public health services are comprised of cemetery operations and maintenance, environmental and development services including community planning and zoning as well as landfill operations.

**Airport services**

The Airport, owned and operated by the City of Kelowna, provides quality airport services in a safe and cost effective manner in compliance with Federal regulations. The Airport is accounted for in its own fund.

**Wastewater services**

Kelowna's sanitary sewer system collects, conveys, treats and disposes of domestic wastewater (derived from the home) and industrial wastewater (resulting from business use, manufacturing and processing). The system currently services approximately 70% of Kelowna's population and continues to be extended to unserved areas. Kelowna's wastewater system has a treatment capacity of 72 million litres per day. Wastewater Utility is accounted for in its own fund.

**Water services**

The Water Utility is responsible for planning, designing, building, operating and maintaining the City's Water Utility and is one of four water suppliers operating within Kelowna's boundaries. The Water Utility is accounted for in its own fund.

**Statutory reserves**

Statutory Reserves include funds for parking, land and capital works, machinery and equipment.

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**14. Expenses by object**

Total consolidated expenses by object are itemized in Schedule 2 – Segmented information.

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**(all tabular amounts reported in 000's of dollars)**

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**15. Budget data**

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15<sup>th</sup> of each year. Subsequent amendments have been made by Council to reflect changes in the budget as required by law. Amortization of tangible capital assets was not included in the budget. The table below shows the reconciliation between the approved budget and the budget presented in these consolidated financial statements.

	<u><b>Budget Amount</b></u>
<b>Revenues:</b>	
Operating budget	\$ 327,890
Capital budget	49,212
	<u>377,102</u>
<b>Expenses:</b>	
Operating budget	252,000
Capital budget	238,049
	<u>490,049</u>
Annual deficit per approved budget	(112,947)
Add: tangible capital asset purchases	238,049
Annual surplus per statement of operations	<u>\$ 125,102</u>

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**16. Contractual rights**

The City of Kelowna contractual rights arise from rights to receive payments from lease agreements. During 2020, the City of Kelowna entered into a long term lease agreement with Rise Commercial Developments Inc to lease 350 Doyle Avenue commencing in 2021. The long term lease is for \$7 million to be received over 80 years with an option to renew for an additional 19 years.

The City of Kelowna has contractual rights to receive the following amounts of lease revenue in the next 5 years.

	<u><b>Total</b></u>
2021	\$ 87.5
2022	87.5
2023	87.5
2024	87.5
2025	87.5
2026 and thereafter	6,562.5
Total	<u>\$ 7,000</u>

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**(all tabular amounts reported in 000's of dollars)**

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**17. Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation format adopted in the current year.

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**CITY OF KELOWNA**  
**Schedule 1 - Tangible Capital Assets**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	<b>Machinery &amp; Equipment</b>						
	<b>Land</b>	<b>Land Improvements</b>	<b>Buildings</b>	<b>Vehicles</b>	<b>Machinery &amp; Equipment</b>	<b>Computers</b>	<b>Subtotal Machinery &amp; Equipment</b>
<b>Cost</b>							
Balance, beginning of year	\$ 319,486	\$ 77,974	\$ 351,584	\$ 34,207	\$ 103,011	\$ 19,516	\$ 156,734
Add: additions during the year	27,827	945	2,094	1,753	3,240	1,975	6,968
Add: transfers to tangible capital assets	-	192	3,470	1,021	1,992	830	3,843
Less: assets held for resale	(6,100)	-	-	1,054	-	-	1,054
Less: disposals during the year	(2,021)	-	-	(1,883)	(8)	-	(1,891)
<b>Balance, end of year</b>	<b>339,192</b>	<b>79,111</b>	<b>357,148</b>	<b>36,152</b>	<b>108,235</b>	<b>22,321</b>	<b>166,708</b>
<b>Accumulated Amortization</b>							
Balance, beginning of year	-	41,277	160,085	20,437	47,007	10,600	78,044
Add: amortization	-	2,591	8,690	1,988	4,680	2,247	8,915
Less: accumulated amortization on disposals	-	-	-	(781)	-	-	(781)
Less: amortization on assets held for resale	-	-	-	53	-	-	53
<b>Balance, end of year</b>	<b>-</b>	<b>43,868</b>	<b>168,775</b>	<b>21,697</b>	<b>51,687</b>	<b>12,847</b>	<b>86,231</b>
<b>Net Book Value of Tangible Capital Assets</b>	<b>\$ 339,192</b>	<b>\$ 35,243</b>	<b>\$ 188,373</b>	<b>\$ 14,455</b>	<b>\$ 56,548</b>	<b>\$ 9,474</b>	<b>\$ 80,477</b>

	<b>Infrastructure</b>								
	<b>Plant &amp; Facilities</b>	<b>Roads, Lanes, Sidewalks &amp; Bike Paths</b>	<b>Bridges, Tunnels &amp; Overpasses</b>	<b>Underground, Overhead &amp; Other Networks</b>	<b>Airport Infrastructure</b>	<b>Subtotal Infrastructure</b>	<b>Work In Progress</b>	<b>Total 2020</b>	<b>Total 2019</b>
<b>Cost</b>									
Balance, beginning of year	\$ 212,185	\$ 570,008	\$ 35,152	\$ 1,130,461	\$ 81,641	\$ 2,029,447	\$ 61,556	\$ 2,996,781	\$ 2,875,397
Add: additions during the year	1,899	5,522	-	2,593	701	10,715	46,826	95,375	131,495
Add: transfers to tangible capital assets	5,796	3,357	-	64,452	3,180	76,785	(84,290)	-	-
Less: assets held for resale	-	-	-	-	-	-	-	(5,046)	(1,670)
Less: disposals during the year	-	-	-	(75)	-	(75)	-	(3,987)	(8,441)
<b>Balance, end of year</b>	<b>219,880</b>	<b>578,887</b>	<b>35,152</b>	<b>1,197,431</b>	<b>85,522</b>	<b>2,116,872</b>	<b>24,092</b>	<b>3,083,123</b>	<b>2,996,781</b>
<b>Accumulated Amortization</b>									
Balance, beginning of year	89,394	332,506	9,682	423,659	33,456	888,697	-	1,168,103	1,106,429
Add: amortization	7,369	19,795	540	17,507	2,748	47,959	-	68,155	67,697
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(781)	(5,970)
Less: amortization on assets held for resale	-	-	-	-	-	-	-	53	(53)
<b>Balance, end of year</b>	<b>96,763</b>	<b>352,301</b>	<b>10,222</b>	<b>441,166</b>	<b>36,204</b>	<b>936,656</b>	<b>-</b>	<b>1,235,530</b>	<b>1,168,103</b>
<b>Net Book Value of Tangible Capital Assets</b>	<b>\$ 123,117</b>	<b>\$ 226,586</b>	<b>\$ 24,930</b>	<b>\$ 756,265</b>	<b>\$ 49,318</b>	<b>\$ 1,180,216</b>	<b>\$ 24,092</b>	<b>\$ 1,847,593</b>	<b>\$ 1,828,678</b>

**CITY OF KELOWNA**  
**Schedule 2 - Segmented Information**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation &amp; Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2020</u>
<b>Revenue</b>										
Taxation	\$ 159,393	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ 1,292	\$ 1,574	\$ -	\$ 162,405
Fees and charges	12,399	7,650	12,686	3,169	28,203	18,887	18,754	16,043	355	118,146
Interest earned	9,129	-	151	-	-	301	1,044	408	2,166	13,199
DCC contributions	-	-	2,869	6,210	-	-	5,056	256	-	14,391
Government transfers	12,282	752	12,698	1,107	141	1,149	186	6,264	-	34,579
Other capital contributions	3,309	-	-	-	-	194	850	361	-	4,714
Gain on disposal of tangible capital assets	884	-	1,760	243	-	-	-	-	-	2,887
	<u>197,396</u>	<u>8,402</u>	<u>30,310</u>	<u>10,729</u>	<u>28,344</u>	<u>20,531</u>	<u>27,182</u>	<u>24,906</u>	<u>2,521</u>	<u>350,321</u>
<b>Expenses</b>										
Salaries and benefits	21,435	30,722	9,811	10,162	8,490	4,221	3,675	3,954	-	92,470
Contract and professional services	5,085	2,611	25,331	7,701	8,731	1,031	771	637	-	51,898
RCMP Contract	-	29,756	-	-	-	-	-	-	-	29,756
Materials and supplies	6,171	1,630	5,784	11,232	1,495	6,317	1,494	1,518	-	35,641
Equipment	664	405	3,592	1,594	2,237	16	879	749	-	10,136
Allocations	(7,390)	(29)	(109)	(188)	1,919	1,852	3,077	953	-	85
Cost recoveries	(1,908)	(2,232)	(9,537)	(177)	(1,469)	(398)	(333)	(525)	-	(16,579)
Grants and external transfers	2,211	81	4	1,591	226	-	-	13	-	4,126
Utilities	154	296	1,351	1,821	359	537	1,133	1,274	-	6,925
Loss on disposal of tangible capital assets	21	-	-	-	798	-	-	-	-	819
Write down of tangible capital assets	-	-	82	-	-	-	-	-	-	82
Amortization of tangible capital assets	4,782	1,823	27,555	7,971	2,043	7,748	10,531	5,702	-	68,155
<b>Total before Debt</b>	<u>31,225</u>	<u>65,063</u>	<u>63,864</u>	<u>41,707</u>	<u>24,829</u>	<u>21,324</u>	<u>21,227</u>	<u>14,275</u>	<u>-</u>	<u>283,514</u>
Debt interest and fiscal services	2,484	-	-	-	-	584	687	297	-	4,052
<b>Total operating expenses</b>	<u>33,709</u>	<u>65,063</u>	<u>63,864</u>	<u>41,707</u>	<u>24,829</u>	<u>21,908</u>	<u>21,914</u>	<u>14,572</u>	<u>-</u>	<u>287,566</u>
<b>Annual Surplus (Deficit)</b>	<u>\$ 163,687</u>	<u>\$ (56,661)</u>	<u>\$ (33,554)</u>	<u>\$ (30,978)</u>	<u>\$ 3,515</u>	<u>\$ (1,377)</u>	<u>\$ 5,268</u>	<u>\$ 10,334</u>	<u>\$ 2,521</u>	<u>\$ 62,755</u>

**CITY OF KELOWNA**  
**Schedule 2 - Segmented Information**  
**For the Year Ended December 31, 2019**  
**(in thousands of dollars)**

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation &amp; Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2019</u>
<b>Revenue</b>										
Taxation	\$ 152,569	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ 1,358	\$ 1,551	\$ -	\$ 155,624
Fees and charges	17,569	10,388	16,227	5,586	27,735	38,826	18,452	15,690	43	150,516
Interest earned	9,463	-	-	-	-	660	1,112	832	2,249	14,316
DCC contributions	-	-	4,122	6,427	-	-	6,117	175	-	16,841
Government transfers	3,339	4,228	9,739	729	3,687	297	241	30,756	-	53,016
Other capital contributions	1,738	-	-	-	-	128	2,282	375	-	4,523
Gain on disposal of tangible capital assets	1,171	-	63	-	-	7	-	-	-	1,241
	<u>185,849</u>	<u>14,616</u>	<u>30,297</u>	<u>12,742</u>	<u>31,422</u>	<u>39,918</u>	<u>29,562</u>	<u>49,379</u>	<u>2,292</u>	<u>396,077</u>
<b>Expenses</b>										
Salaries and benefits	20,707	29,528	9,228	11,829	7,647	4,619	3,424	3,556	-	90,538
Contract and professional services	6,639	2,356	27,591	8,895	9,309	1,772	712	936	-	58,210
RCMP Contract	-	31,235	-	-	-	-	-	-	-	31,235
Materials and supplies	6,303	1,771	6,808	11,014	2,027	8,115	1,464	1,566	-	39,068
Equipment	543	324	2,994	1,895	2,376	23	748	548	-	9,451
Allocations	(7,162)	(50)	(93)	(172)	1,933	1,690	3,107	840	-	93
Cost recoveries	(2,133)	(1,875)	(11,519)	(318)	(1,521)	(723)	(272)	(541)	-	(18,902)
Grants and external transfers	9	117	20	1,904	3,702	-	-	1	-	5,753
Utilities	188	304	1,288	2,080	330	573	1,151	1,076	-	6,990
Loss on disposal of tangible capital assets	1	1,084	-	-	-	-	-	-	-	1,085
Write down of tangible capital assets	696	-	51	186	-	196	24	11	-	1,164
Amortization of tangible capital assets	3,969	1,838	28,128	8,333	1,908	7,850	10,571	5,100	-	67,697
<b>Total before Debt</b>	<u>29,760</u>	<u>66,632</u>	<u>64,496</u>	<u>45,646</u>	<u>27,711</u>	<u>24,115</u>	<u>20,929</u>	<u>13,093</u>	<u>-</u>	<u>292,382</u>
Debt interest and fiscal services	2,740	-	-	-	-	584	1,644	297	-	5,265
<b>Total operating expenses</b>	<u>32,500</u>	<u>66,632</u>	<u>64,496</u>	<u>45,646</u>	<u>27,711</u>	<u>24,699</u>	<u>22,573</u>	<u>13,390</u>	<u>-</u>	<u>297,647</u>
<b>Annual Surplus (Deficit)</b>	<u>\$ 153,349</u>	<u>\$ (52,016)</u>	<u>\$ (34,199)</u>	<u>\$ (32,904)</u>	<u>\$ 3,711</u>	<u>\$ 15,219</u>	<u>\$ 6,989</u>	<u>\$ 35,989</u>	<u>\$ 2,292</u>	<u>\$ 98,430</u>

**CITY OF KELOWNA**  
**Schedule 3 - Long Term Debt**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

**Long term debt - General Fund**

**Debtenture Debt**

<b>Year of Maturity</b>	<b>Purpose</b>	<b>Debt Balance December 31, 2019</b>	<b>Amount of Issue</b>	<b>Debt Balance December 31, 2020</b>	<b>Sinking Fund Balance December 31, 2020</b>	<b>Current Interest Rate</b>
	<b>Public Works</b>					%
2022	Chapman Parkade	\$ 890	\$ 4,071	\$ 607	\$ 3,464	2.25
	<b>Local Improvements</b>					
2035	Lawrence Ave LAS	282	345	268	77	3.00
	<b>Recreation and Cultural</b>					
2021	Kokanee Gym Facility	75	500	38	462	1.75
2027	H2O Centre	13,624	27,500	12,145	15,355	2.25
2027	Kokanee Gymnastic	396	800	353	447	2.25
2028	H2O Centre	1,094	2,000	991	1,009	2.90
2035	Police Facilities	17,019	20,000	16,208	3,792	2.75
2035	Library Parkade Ext & Memorial Parkade	12,764	15,000	12,156	2,844	2.75
2036	Police Facilities	15,133	17,000	14,466	2,534	2.60
2037	Police Facilities	2,773	3,000	2,655	345	3.15
2038	Police Facilities	1,310	1,360	1,257	103	3.15
<b>Total Debt - General Fund</b>		<b>\$ 65,360</b>	<b>\$ 91,576</b>	<b>\$ 61,144</b>	<b>\$ 30,432</b>	



**CITY OF KELOWNA**  
**Schedule 3 - Long Term Debt**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

**Long term debt - Wastewater Fund**

**Debenture Debt**

<b>Year of Maturity</b>	<b>Purpose</b>	<b>Debt Balance December 31, 2019</b>	<b>Amount of Issue</b>	<b>Debt Balance December 31, 2020</b>	<b>Sinking Fund Balance December 31, 2020</b>	<b>Current Interest Rate</b>
2022	Spec. Area 22A - Gerstmar	\$ 9	\$ 40	\$ 6	\$ 34	1.75
2024	Spec. Area 21A - McKenzie Bench	469	1,350	384	966	2.25
2024	Spec. Area 22B - Vista Rd	28	80	23	57	2.25
2024	Spec. Area 22C - Hein Rd	92	266	76	190	2.25
2024	Spec. Area 22D - Elwyn Rd	52	149	42	107	2.25
2024	Spec. Area 22E - Dease Rd	33	96	27	69	2.25
2024	Spec. Area 22F - Mills Rd	119	342	97	245	2.25
2024	Spec. Area 29 - Campion Cambro	304	874	248	626	2.25
2024	Spec. Area 30 - Acland	127	364	104	260	2.25
2025	Spec. Area 20 - North Rutland	2,609	6,822	2,210	4,612	0.91
2025	Spec. Area 28A - Okaview	244	638	207	431	0.91
2028	Spec Area 26 - Fisher Rd	1,106	2,021	1,001	1,020	2.90
2028	Spec Area 34 - Country Rhodes	238	435	216	219	2.90
2028	Spec Area 36 - Clifton	146	267	132	135	2.90
<b>Sewage Treatment Plant</b>						
2020	Waste Water Treatment Expansion	1,185	10,000	-	10,000	1.28
2031	Brandt's Creek Tradewaste Treatment	2,051	3,800	1,792	2,008	3.25
<b><u>Total Debt - Wastewater Fund</u></b>		<b><u>\$ 8,812</u></b>	<b><u>\$ 27,544</u></b>	<b><u>\$ 6,565</u></b>	<b><u>\$ 20,979</u></b>	

**CITY OF KELOWNA**  
**Schedule 3 - Long Term Debt**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

**Long term debt - Water Fund**

**Debenture Debt**

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2019</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2020</u>	<u>Sinking Fund Balance December 31, 2020</u>	<u>Current Interest Rate</u>
	<b>Specified Area Programs</b>					%
2023	Spec Area 16 - Byrns	\$ 11	\$ 39	\$ 9	\$ 30	2.85
2024	Spec Area 18 - Lakeshore	8	24	7	17	2.25
2028	Spec Area 26 - Fisher Rd	163	297	147	150	2.90
2038	Local Area Service - Aspen Rd	46	48	44	4	3.20
	<b>Water Improvement Programs</b>					
2028	Cedar Creek Pump Station	4,145	7,577	3,754	3,823	2.90
2031	Poplar Point Pump Station Upgrade	1,381	2,000	1,290	710	3.25
	<b>Total Debt - Water Fund</b>	<b>\$ 5,754</b>	<b>\$ 9,985</b>	<b>\$ 5,251</b>	<b>\$ 4,734</b>	

**Long term debt - Airport Fund**

**Debenture Debt**

2025	Airport Expansion	\$ 4,805	\$ 7,500	\$ 4,072	\$ 3,428	2.75
2026	Airport Expansion	2,573	3,500	2,242	1,258	2.60
2026	Airport Expansion	2,191	3,000	1,905	1,095	2.10
2027	Airport Expansion	6,583	8,000	5,843	2,157	2.80
	<b>Total Debt - Airport Fund</b>	<b>\$ 16,152</b>	<b>\$ 22,000</b>	<b>\$ 14,062</b>	<b>\$ 7,938</b>	

**Long term debt - Other**

2020	Wastewater - Commonage	\$ 110	\$ 439	\$ -		nil
2021	Airport - 3770 Bulman road	1,800	4,500	900		nil
2022	General Land - Diamond Mountain	4,675	6,900	2,450		nil
2023	General Land - Dewdney Park	2,952	2,952	2,214		nil
2029	Airport - Enterprise Rental Car Kiosk	-	73	67		nil
	<b>Total Debt - Other</b>	<b>\$ 9,537</b>	<b>\$ 14,864</b>	<b>\$ 5,631</b>		

<b>Total City Long Term Debt</b>	<b>\$ 105,615</b>	<b>\$ 165,969</b>	<b>\$ 92,653</b>
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City of  
**Kelowna**

City Hall  
Financial Services  
1435 Water Street  
Kelowna, BC, V1Y 1J4

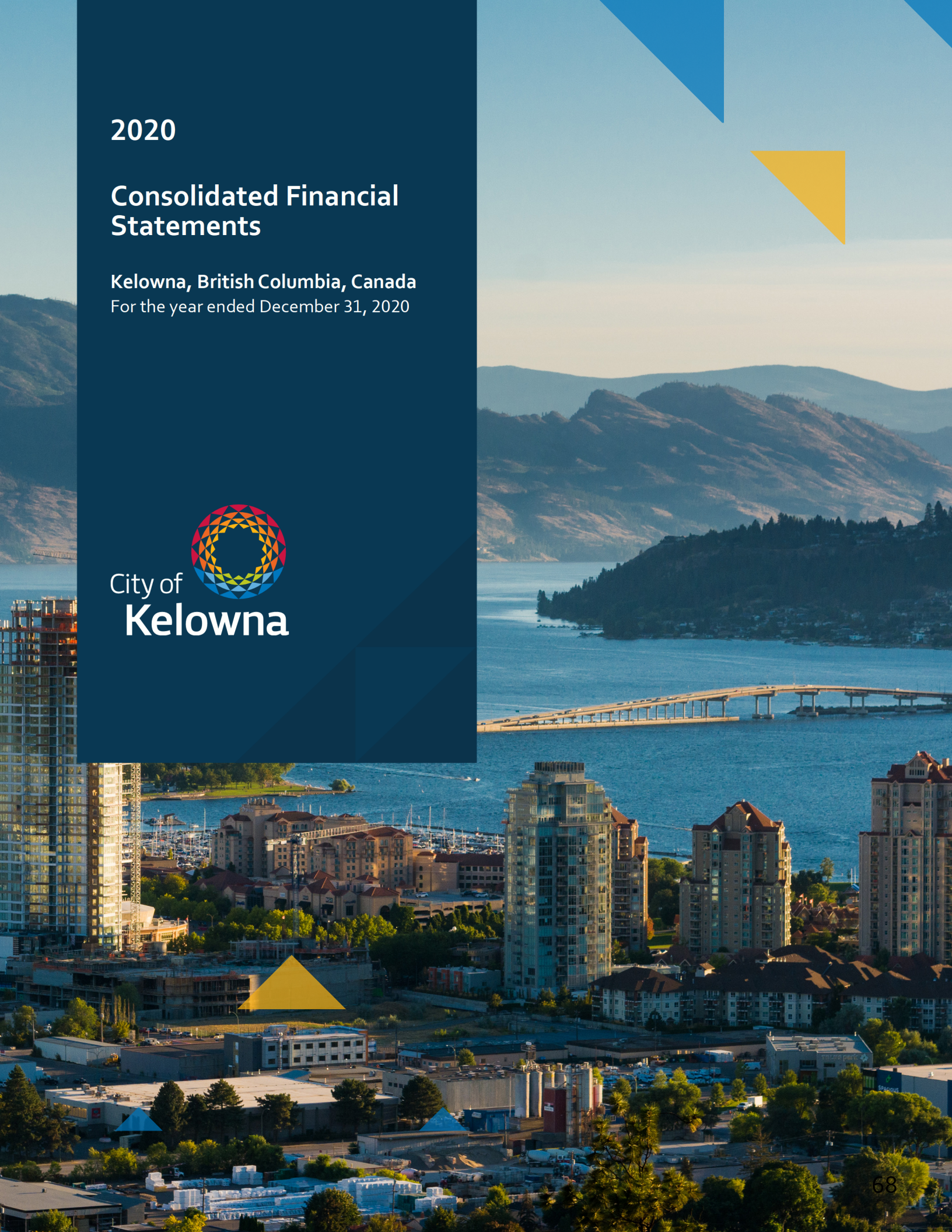
Tel 250-469-8542  
[financeyearend@kelowna.ca](mailto:financeyearend@kelowna.ca)

**kelowna.ca**

2020

# Consolidated Financial Statements

Kelowna, British Columbia, Canada  
For the year ended December 31, 2020



# CITY OF KELOWNA

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## Independent auditors' report

To the members of the Council of the City of Kelowna

### Opinion

We have audited the consolidated financial statements of the City of Kelowna ("the City"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

## Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kelowna, Canada  
April 29, 2021

Chartered Professional Accountants

**CITY OF KELOWNA**  
**Consolidated Statement of Financial Position**  
**As at December 31, 2020**  
**(in thousands of dollars)**

	<u>2020</u>	<u>2019</u>
<b>Financial Assets</b>		
Cash and cash equivalents (Note 3)	\$ 76,434	\$ 18,842
Accounts receivable (Note 3)	29,783	40,138
Accrued interest	2,134	2,444
Portfolio investments (Note 3)	547,799	549,192
Long term investments (Note 10)	6,000	6,000
Assets held for resale	10,171	5,072
	<u>672,321</u>	<u>621,688</u>
<b>Liabilities</b>		
Accounts payable	80,452	63,284
Performance deposits	27,299	28,063
Deferred revenue (Note 3)	45,510	45,404
Deferred development cost charges (Note 3)	83,754	79,100
Long term debt (Note 3)	92,653	105,615
	<u>329,668</u>	<u>321,466</u>
<b>Net Financial Assets</b>	<u>342,653</u>	<u>300,222</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	11,631	10,194
Inventory	1,290	1,318
Work in progress (Note 4)	24,092	61,556
Tangible capital assets (Note 4)	1,823,501	1,767,122
	<u>1,860,514</u>	<u>1,840,190</u>
<b>Accumulated Surplus (Note 5)</b>	<u>\$ 2,203,167</u>	<u>\$ 2,140,412</u>

Contingent liabilities and Commitments (Notes 8 and 9)  
Contractual rights (Note 16)

Genelle Davidson, CPA, CMA  
Divisional Director, Financial Services

Colin Basran  
Mayor, City of Kelowna

*See accompanying notes to the consolidated financial statements.*



**CITY OF KELOWNA**  
**Consolidated Statement of Operations and Accumulated Surplus**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	Budget 2020	Actual 2020	Actual 2019
<b>Revenue</b>			
Taxation (Note 6)	\$ 162,031	\$ 162,405	\$ 155,624
Fees and charges	140,627	118,146	150,516
Interest earned	5,766	13,199	14,316
DCC contributions	31,044	14,391	16,841
Government transfers (Note 7)	37,123	34,579	53,016
Other capital contributions	511	4,714	4,523
Gain on disposal of tangible capital assets	-	2,887	1,241
	<u>377,102</u>	<u>350,321</u>	<u>396,077</u>
<b>Expenses</b>			
General government	36,021	33,692	31,804
Protective services	68,627	65,063	65,549
Transportation	39,758	63,781	64,443
Recreation & cultural	38,975	41,707	45,460
Other services	23,144	24,031	27,711
Airport	18,599	21,907	24,502
Wastewater	14,147	21,913	22,549
Water	12,729	14,571	13,380
Loss on disposal of tangible capital assets	-	819	1,085
Write down of tangible capital assets	-	82	1,164
	<u>252,000</u>	<u>287,566</u>	<u>297,647</u>
<b>Annual Surplus</b>	<u>\$ 125,102</u>	<u>62,755</u>	98,430
Accumulated Surplus, beginning of year		<u>2,140,412</u>	2,041,982
<b>Accumulated Surplus, end of year</b>		<u>\$ 2,203,167</u>	<u>\$ 2,140,412</u>

*See accompanying notes to the consolidated financial statements.*

**CITY OF KELOWNA**  
**Consolidated Statement of Changes in Net Financial Assets**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	Budget 2020	Actual 2020	Actual 2019
<b>Annual Surplus</b>	\$ 125,102	\$ 62,755	\$ 98,430
Amortization of tangible capital assets	-	68,155	67,697
Proceeds from disposal of tangible capital assets	-	5,191	1,463
Gain on disposal of tangible capital assets	-	(2,067)	(156)
Write down of tangible capital assets	-	82	1,164
Acquisition of tangible capital assets	(238,049)	(88,013)	(129,376)
Contributions of tangible capital assets	-	(2,263)	(502)
Change in inventory and prepaid expenses	-	(1,409)	(6,700)
	<hr/>	<hr/>	<hr/>
<b>Increase (decrease) in Net Financial Assets</b>	(112,947)	42,431	32,020
Net Financial Assets, beginning of year	300,222	300,222	268,202
	<hr/>	<hr/>	<hr/>
<b>Net Financial Assets, end of year</b>	\$ 187,275	\$ 342,653	\$ 300,222
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*See accompanying notes to the consolidated financial statements.*

**CITY OF KELOWNA**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	<u>Actual 2020</u>	<u>Actual 2019</u>
<b>Net inflow (outflow) of cash and cash equivalents related to the following activities</b>		
<b>Operating</b>		
Annual surplus	\$ 62,755	\$ 98,430
Adjustment for non-cash items		
Amortization of tangible capital assets	68,155	67,697
Gain on disposal of tangible capital assets	(2,067)	(156)
Write down of tangible capital assets	82	1,164
Actuarial adjustment on long term debt	(2,159)	(3,266)
Contributions of tangible capital assets	(2,263)	(502)
Decrease (increase) in		
Accounts receivable	10,355	5,276
Inventory and prepaid expenses	(1,409)	(6,700)
Other assets	(4,789)	(2,475)
Increase (decrease) in		
Accounts payable	17,168	12,362
Deferred development cost charges	4,654	12,266
Other liabilities	(658)	1,505
	<u>149,824</u>	<u>185,601</u>
<b>Capital</b>		
Acquisition of tangible capital assets	(88,013)	(129,376)
Proceeds from disposal of tangible capital assets	5,191	1,463
	<u>(82,822)</u>	<u>(127,913)</u>
<b>Investing</b>		
Change in investments	1,393	(53,376)
<b>Financing</b>		
Proceeds from issuance of long term debt	73	2,952
Repayment of long term debt	(10,876)	(13,411)
	<u>(10,803)</u>	<u>(10,459)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>57,592</b>	<b>(6,147)</b>
Cash and cash equivalents, beginning of year	18,842	24,989
<b>Cash and cash equivalents, end of year</b>	<b>\$ 76,434</b>	<b>\$ 18,842</b>
<b>Non-cash capital activities</b>		
Acquisition of tangible capital assets through contributions (Note 4)	\$ 2,263	\$ 502

*See accompanying notes to the consolidated financial statements.*

# Memo

**Date:** April 29, 2021  
**To:** Audit Committee  
**From:** Divisional Director, Financial Services  
**Subject:** Audit Committee Review of December 31, 2020  
Consolidated Financial Statements  
  
Report Prepared by: Corporate Finance Manager

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## **Purpose of Public Sector Financial Statements**

Public sector statements differ from business enterprise statements in that the public sector exists to provide services to the public rather than to generate profit. The result is a set of statements that provide an overview of resources used and resources available to provide services. The statement formats are a reporting requirement of the Public Sector Accounting Standards (PSAS) under standards and guidance established by the Public Sector Accounting Board (PSAB).

## **Consolidated Financial Statements**

Consolidated statements include the financial results for each of the General, Airport, Wastewater, and Water funds and provide an aggregated view of the financial position of the City which assists in measuring the overall financial well-being of the organization.

The consolidated financial statements that the City prepares consist of:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations and Accumulated Surplus
- Consolidated Statement of Changes in Net Financial Assets
- Consolidated Statement of Cash Flows; and
- Notes to the Financial Statements

A description of the purpose each statement will be provided as each statement is reviewed.

## **Consolidated Statement of Financial Position**

This statement presents the Net Financial Assets, Non-Financial Assets and Accumulated Surplus as at December 31, 2020 and December 31, 2019, which provides information on the cumulative impact of past transactions and events on future revenue requirement and service capacity.

The City's net financial assets are equal to its financial assets less its financial liabilities. The City's financial assets consist of cash and cash equivalents, accounts receivable, accrued interest, portfolio investments, long term investments in other entities and assets held for resale. These are the financial resources available to discharge the existing liabilities as well as finance future operations. The City's liabilities consist of accounts payable, performance deposits, deferred revenue, deferred development cost charges and long-term debt.

The City's non-financial assets consist of prepaid expenses, inventory, work in progress and tangible capital assets and are employed to provide future services without the need to be financed from current revenues.

The City's accumulated surplus is the total that the City's historical revenues have exceeded its historical expenses. The accumulated surplus is equal to the sum of the net financial assets and non-financial assets representing resources (both financial and non-financial) that may be used to provide future services.

### Net Financial Assets

The City's net financial assets increased by \$42.4M from \$300.2M at December 31, 2019 to \$342.6M at December 31, 2020 indicating the City has sufficient assets to settle existing liabilities. The increase in Net Financial Assets in the year is attributable to an increase of \$57.6M in cash and cash equivalents, a (\$10.3M) decrease in accounts receivable, a \$5.1M increase in assets held for resale and an increase of \$17.2M in accounts payable. The extent to which the City's assets exceed liabilities represents liquidity and is a positive indicator of the City's financial strength.

### Financial Assets

The City's financial assets increased by \$50.6M from \$621.7M at December 31, 2019 to \$672.3M at December 31, 2020.

#### A. Cash and cash equivalents

Cash and cash equivalents represent funds held in the City either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The City's cash and cash equivalents increased \$57.6M in the year ended December 31, 2020. Further details on this movement have been included below under the discussion of the Statement of Cash Flows.

#### B. Accounts Receivable

The 2020 balance of \$29.8M is a decrease of (\$10.3M) over the prior year. This is primarily due to reductions in provincial government grant funding receivable of (\$5.1M), development cost charges of (\$3.2M), and the impact of COVID-19 on casino and gaming revenues of (\$1.1M).

#### C. Assets Held for Resale

Under PSAS requirements, assets held for sale must be disclosed separately as the intention is not to use these assets to provide future services.

In 2020, assets held for resale totaled \$10.2M in cost. Assets held for resale may include land, buildings, and machinery and equipment. The \$5.1M increase for 2020 is due to land additions for 380 Harvey Ave and 1746 Water St offset by the disposal of 4753 Gordon Dr as well as reductions in machinery and equipment for waste management curbside vehicles. The City continues to hold a portion of the CN Rail Corridor acquisition in Assets Held for Resale to accommodate the Lake Country Agreement.

In 2019 land additions included 4753 Gordon Dr and machinery and equipment additions included waste management curbside vehicles. Land disposals in 2019 included properties on Cross Rd and Clifton Rd along with a portion of the holding for the CN Rail Corridor.

### Liabilities

#### A. Accounts Payable

Accounts payable at the end of 2020 totaled \$80.5M, an increase of \$17.2M in the year mainly due to the school tax accrual of \$26.7M resulting from a change in the due date because of the pandemic. This was partially offset by reductions in various holdbacks of (\$6.0M).

### Non-Financial Assets

Non-Financial Assets are comprised of Tangible Capital Assets (TCA), Inventory, and Prepaid Expenses that the City has available and will use to provide future services rather than to settle liabilities. The City's Non-Financial assets increased \$20.3M from \$1.84B at December 31, 2019 to \$1.86B at December 31, 2020.

#### A. Work-in-Progress (WIP)

The City's work-in-progress (WIP) represents expenditures on incomplete projects that are not in use and therefore not eligible to be capitalized to tangible capital assets or subject to amortization. WIP decreased by (\$37.5M) to the 2020 balance of \$24.1M. The change in WIP is the result of:

- o An increase of \$47M primarily due to \$7.0M for SEKID Separation, \$3.7M for Westpoint Transmission (Phase 2), \$3.5M for Landfill Liner Design and Construction, \$2.6M for Airport ATB Expansion, \$2.3M for Ethel 5 DCC and \$1.9M for the South End Water Upgrades.
- o A decreases of \$84M for projects completed and capitalized in 2020 that includes \$34.0 for SEKID Separation, \$13.9M for South End Water Upgrades, \$4.8 for Landfill Liner Design and Construction, \$3.9M for Westpoint Transmission (Phase 2), \$3.7M for KLO (Phase 2), \$2.8M for Airport Long Term and Convair Way Parking Lot Upgrades, \$2.5M for Ethel 5 DCC and \$2.5M for Gyro Forcemain DCC.

### Accumulated Surplus

The City's Net Financial Assets of \$342.7M plus the Non-Financial Assets balance of \$1.86B totals \$2.20B which represents the cumulative amount that revenues have exceeded expenses. This excess has been utilized to fund tangible capital asset acquisitions over time. Further details on the City's annual surplus follow in the discussion on the Statement of Operations and Accumulated Surplus.

## Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus details the City's revenues, expenses and annual surplus and accumulated surplus for the years ended December 31, 2020 and December 31, 2019. This statement presents the results of the City's operations excluding capital expenditures. As required by legislation, the annual standard budget for each revenue and expense component is also presented. These are the standard budget amounts approved by Council in May of 2020, excluding any subsequent budget transfers and amendments that were approved through the balance of the year. The revenue section of this statement includes both capital and operating funding sources thereby reflecting all of the revenue sources used to cover the cost of services provided.

Capital expenditures are not included in the expenses section of this statement as the cost for capital expenditures consumed is measured by the annual amortization amount for tangible capital assets. The amortization of tangible capital assets is included in each function's expenses. Capital expenditures are reviewed under the Statement of Changes in Net Financial Assets discussion.

### Revenue

#### A. Fees and Charges

The City collects a variety of fees and charges for specific services whose costs are not covered by taxation.

These fees decreased by \$32.4M or 21.5% to \$118.1M in 2020 and is mainly attributable to the COVID-19 public health order restrictions and travel advisories resulting in decreases for air travel, public transit and use of recreational facilities.

#### B. Government transfers

These contributions include funding for both operating and capital undertakings. There was a decrease in 2020 of \$18.4M to \$34.6M primarily due to a \$24.0M decrease in Water Fund capital projects and was partially offset by the Provincial COVID Safe Restart Grant for Local Governments of \$7.9M.

#### C. Gain on Disposal of Tangible Capital Assets

For 2020, gains on disposals were primarily due to Land sales (\$2.8M).

### Expenses

In the Statement of Operations, expenses are categorized and reported by the various functions or programs undertaken by the City. In Schedule 2 - Segmented Information expenses are categorized and reported by groupings of expense types. In 2020 total expenses decreased by \$10.0M.

#### A. General Government

This category of expenditures includes legislative costs, general administration and other general government areas such as community service grants and rental property operating costs within the municipality. There was an increase of \$1.9M in spending to \$33.7M in 2020 over 2019. The increase is attributed to \$2M in MRDT grant expense included in Other Services in 2019, \$0.8M in amortization and was offset by a \$1.5M reduction in Contract Services primarily related to less expenses for Freshet/Flood recovery in 2020 over 2019.

#### B. Water

This category of expenditures includes the planning, designing, building, operating and maintaining the City's water utility. There was an increase of \$1.2M in spending to \$14.6M in 2020 over 2019. The increase is attributed to \$0.6M increase in amortization, \$0.4M anticipated increase in salaries and benefits, \$0.2M for increased vehicle usage which was due to public health orders restricting the number of occupants in a vehicle, \$0.2M increase in utilities for water pump stations and was offset by a \$0.3M reduction in contract services for water management.

#### C. Loss on disposal of tangible capital assets

The loss on disposal of TCA results from the sale of capital assets for less than their carrying value. The loss of \$0.8M relates primarily to the disposal of vehicles, including the remaining solid waste management vehicles.

#### Annual Surplus

The Annual Surplus decreased by \$35.7M to \$62.7M in 2020 as revenues decreased by 11.6% which was only marginally recovered by a 3.4% decrease in expenses over 2019.

The annual surplus is a result of operations from all funds and reserves excluding capital expenditures.

#### Accumulated Surplus

As a result of this year's Annual Surplus of \$62.7M, the Accumulated Surplus increased from \$2.14B to \$2.20B. This represents the cumulative results of all surpluses the City has incurred and is available to provide future services and agrees to the balance on the Consolidated Statement of Financial Position.

#### Consolidated Statement of Changes in Net Financial Assets

The Statement of Changes in Net Financial Assets provides a detailed analysis of the change in the City's net financial assets from the beginning to the end of the year. The City's net financial assets increased \$42.4M from \$300.2M at December 31, 2019 to \$342.6M at December 31, 2020.



The Statement of Changes in Net Financial Assets reconciles to the Statement of Financial Position's balance of Net Financial Assets and is a key indicator of the City's financial position and a statement of cash flow for capital. It begins with the current year's annual surplus of \$62.7M and adds or subtracts the following:

- Add back the non-cash amortization of \$68.2M which represents the value of tangible capital assets used in the year to provide services;
- Add the proceeds for the disposal of Tangible Capital Assets of \$5.2M which is comprised of proceeds from land sales and equipment disposals;
- Subtract the gain on sale of capital assets which represents the net gain over net book value from land sales and equipment sales \$2.1M;
- Add the write down for impaired assets of \$0.1M
- Subtract the acquisition and contribution of Tangible Capitals Assets in the current year of \$90.3M;
- Subtract the decrease of inventory and prepaid expenses of \$1.4M.

The variance between actual and budgeted capital asset additions is primarily due to timing and carryovers of projects to be completed next year. The balance of Work in Progress (WIP) at the end of the year was \$24.1M.

General Fund tangible capital acquisitions include Land of \$24.2M comprised of \$7.4M for UBC West Campus lands, \$5.3M for 2302 Abbot St, \$2.7M for 1345 St. Paul St, \$1.8M for 1055 and 1063 Ellis St and \$1.0M for 1230 Brookside Ave.

Infrastructure capital expenditures for 2020 were \$18.4M comprised of the following significant projects: Landfill Liner design and construction \$4.9M and Ethel 5 DCC ATC \$2.5.

Land Improvements were \$1.1M in 2020 with the most significant spending being on the Boyce-Gyro Beach Park \$0.4M and Sarson's Beach Park – Expansion \$0.2M.

Airport Fund acquisitions totaled \$2.3M made up of spending on the acquisition of 4130 Old Vernon Rd \$0.7M, an Airport dump truck \$0.3M and Pavement Rehabilitation \$0.3M.

The Wastewater Fund capital expenditures of \$4.1M in 2020 were primarily for Gyro Force Main DCC \$2.4M, Swordy DCC upgrades \$1.1M and repairs on the Waste Water Treatment Facility building \$0.2M.

The Water Fund capital expenditures of \$13.8M in 2020 were primarily for Westpoint Transmission (Phase 2) \$3.9M, KLO (Phase 2) \$3.7M and SEKID Water Meters \$1.6M.

The Net Financial Assets at the end of the year of \$342.6M agrees to the Consolidated Statement of Financial Position balance and represents the Net Financial Assets available to finance existing resources.

## Consolidated Statement of Cash Flows

The Statement of Cash Flows outlines the cash generated and used by the City's operations, capital activities, investing activities and financing activities. Some of the balances on this statement were discussed previously when reviewing the Statement of Financial Position.

The Cash and cash equivalents balance at the end of 2020 of \$76.4M is an increase of \$57.6M. This balance is comprised of cash and investments that mature within 90 days and is held in banks, credit unions and other municipal, provincial or guaranteed investment instruments.

Operations provided net cash inflows of \$149.8M that were used in the acquisition of new tangible capital assets of \$88.0M (net of \$2.3M which were funded through developer contributions). Proceeds from the sale of land and vehicles generated \$5.2M while repayment of debt, net of new debt borrowings was \$10.9M. The balance flowed into Portfolio Investments which increased by \$1.4M in the year.

The Statement of Cash Flows includes cash flows from Operating, Capital, Investing and Financing that are reviewed as follows:

### 1. Operating:

There were cash flows from operations of \$149.8M in 2020 down from \$185.6M in the prior year. The amount is determined by taking the Annual Surplus and adding or subtracting adjustments for non-cash items such as amortization, and developer contributions of capital, and adding or subtracting the change in balance year over year for non-cash financial assets and liabilities such as accounts receivable or payable.

- Amortization – \$68.2M
- Write Down of Tangible Capital Assets – \$0.1M.
- Developer Contributed Assets – Land: 1410 Cara Glen Ct \$1.1M, 5505 Chute Lake Rd \$0.8M, 5127 Chute Lake Rd (Lots 7 & 8) \$0.2M. Other contributed land totalling \$0.2M includes 1795 Fawn Run Dr, 5425 W Upper Mission Dr, 8877 Jim Bailey Rd, 5080 Twinflower Cr and 4975 Buckhaven Ct \$0.2M.
- Inventory & prepaid expenses and Other assets – Balances increased over the prior year which is a reduction in cash received. Assets held for resale are included here.
- Accounts Payable and Deferred Development Cost Charges - Balances increased over the prior year which drives an increase in cash received. As development increases, DCCs increase along with performance deposits and revenue from permits and fees tied to development.

2. Capital:

Acquisition of capital assets decreased by \$41.4M to \$88.0M in 2020 from \$129.4M in 2019. Expenditures occurred in the following funds:

	<u>2020</u>	<u>2019</u>
General Fund	\$56.7	\$61.4
Airport	5.4	14.8
Waste Water	5.2	5.8
Water	20.7	47.4

Proceeds on disposal of capital assets increased by \$3.7M to \$5.2M from \$1.5M in 2019. Proceeds in 2020 were \$4.8M from land sales and \$0.4M from vehicle disposals.

Proceeds in 2019 were \$1M from land sales, \$0.4M from vehicle disposals and \$0.1M from the sale of buildings.

Repayment of debt decreased \$2.5M over 2019.

This concludes the review of the Audited Consolidated Financial Statements for the year ended December 31, 2020.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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The notes to the consolidated financial statements are an integral part of the statements. They explain the significant accounting and reporting policies and principles underlying these statements. They also provide relevant supplementary information and explanations which cannot be conveniently expressed in the consolidated financial statements.

The consolidated financial statements are the responsibility of and prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS). The preparation of these consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

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**1. Significant accounting policies**

**Basis of presentation**

The City of Kelowna's resources and operations are segregated into General, Airport, Wastewater Utility, Water Utility, Development Cost Charges and Statutory Reserve Funds for accounting and financial reporting purposes. The consolidated financial statements include all the accounts of these funds. All material interfund transactions and balances have been eliminated within the consolidated financial statements.

On March 11, 2020 the World Health Organization officially declared the COVID19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The City has deployed initiatives in order to protect the health and safety of its employees, to support its customers, and mitigate the impact of the crisis while ensuring continuity of its activities. Although decreased flights and passenger volumes have significantly impacted the Airport, the impact to the rest of the City's operations has not been as significant. As of this time, it is difficult to assess the impact of the City's future results as it is dependent on the length and severity of the pandemic. Management will continue to monitor and assess the situation and respond accordingly.

**Accrual accounting**

The accrual method for reporting revenues and expenses has been used. Revenues are recognized in the period in which the transactions or events occur that give rise to the revenues. Expenses are recognized in the period in which the goods or services are acquired and a liability is incurred.

**Assets held for resale**

Assets held for sale are those expected to be sold within one year. They are valued at the lower of cost or expected net realizable value. Cost includes amounts for improvements to prepare the asset for sale.

**Inventory**

Inventory is valued at the lower of cost, determined principally on a weighted average and specific item basis, or replacement cost.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Municipal Finance Authority cash deposits and demand notes**

The City issues the majority of its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the Municipal Finance Authority as a debt reserve fund. The City also executes demand notes in connection with each debenture whereby the City may be required to loan certain amounts to the Municipal Finance Authority. These demand notes are contingent in nature. The Debt Reserve and Demand Note balances are as follows:

	<u>2020</u>	<u>2019</u>
Cash deposits held by MFA	\$ 1,812	\$ 1,906
Demand notes held by MFA	<u>4,152</u>	<u>4,655</u>
	<u>\$ 5,964</u>	<u>\$ 6,561</u>

**Municipal pension plan**

The City of Kelowna's pension plan follows the guidelines of the Municipal Pension Plan which is administered by the Province of British Columbia for all British Columbia municipalities. The City and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan.

**Reserves for future expenditures**

Reserves for future expenditures are non-statutory reserves which represent an appropriation of surplus for specific purposes. Transfers to reserves for future expenditures include funds to finance incomplete projects and accumulations for specific purposes.

**Statutory reserve funds**

The use of these funds is restricted by the Community Charter and associated Municipal Bylaws. Statutory reserve funds are funded 100% by cash and portfolio investments.

**Intangible assets**

Intangible assets include works of art and historic assets located throughout the City. They are not reflected in these consolidated financial statements.

**Interest capitalization**

The City of Kelowna only capitalizes interest on projects being financed internally which will require debenture borrowing upon completion. Interest is calculated on monthly expenditures at the bank prime rate less 2%.

**Work in progress**

Work in progress represents capital projects under construction but not yet completed and are valued at cost.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Tangible capital assets**

The City records tangible capital assets, including assets held as work in progress or capital lease, at cost in the period they were acquired or when the asset is put into use.

All tangible capital assets are valued at cost which includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset.

Assets owned by the City but not paid for by the City including contributions, dedications, gifts and donations, are valued at fair value at the date of contribution, dedication, gift or donation, where fair value is reasonably determinable.

**Contributions of tangible capital assets**

Tangible capital assets received as contributions are recorded at their fair market value.

**Amortization**

The cost less residual value of the tangible capital assets is amortized on a straight-line basis over the useful lives of the asset as follows:

<u>Asset Type</u>	<u>Useful Life (years)</u>	<u>Asset Type</u>	<u>Useful Life (years)</u>
Parks infrastructure		Vehicles	
Playground equipment	15 - 20	Cars and light trucks	5 - 10
Artificial turf field	10 - 12	Fire trucks	15 - 20
Washrooms, concessions, picnic shelters	40 - 50	IT infrastructure	
Outdoor pools, spray pools	50 - 60	Hardware	4 - 5
Building structure	40 - 75	Software	5 - 10
Building improvements		Telephone system	7 - 10
Exterior envelope	30 - 40	Infrastructure	
HVAC systems	10 - 12	(dependent upon component and material)	
Roof	15 - 20	Electrical	20 - 25
Electrical, plumbing and fire	15 - 20	Water	10 - 100
Site works - asphalt, water and sewer lines, etc	10 - 100	Wastewater	10 - 100
Machinery & equipment		Drainage	10 - 100
General equipment	7 - 10	Transportation	10 - 100
Grounds equipment and machinery	10 - 15		
Heavy construction equipment	5 - 10		

Land and Work in Progress are not amortized.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Revenue recognition**

Taxation revenue

Annual levies for non-optional municipal services and general administrative services are recorded as taxes for municipal purposes. Levies imposed by other taxing authorities are not included as taxes for municipal purposes. Taxes are recognized as revenue in the year they are levied.

Through the BC Assessment appeal process taxes may be adjusted by way of supplementary roll adjustments. The effect of these adjustments on taxes are recognized at the time they are awarded.

Fees and charges revenue

Charges for transportation, environmental health, building permits, water, wastewater, and airport are included in this category. These revenues are recorded on the accrual basis and recognized as earned which is usually when services are provided or facilities are utilized.

Development Cost Charges (DCC) contributions

Development Cost Charges (DCC) contributions are recognized as revenue during the period in which the related costs are incurred.

Government transfers

Government transfers are recognized as revenue in the period that the transfer is authorized, eligibility criteria, if any, has been met by the City, and a reasonable estimate of the amount to be received can be made.

Investment income

The City's investments are disclosed in Note 3.

Investment income is recorded on the accrual basis and recognized when earned.

A portion of the City's investments are invested in pooled funds of the Municipal Finance Authority of British Columbia. Earnings on these funds are allocated to the members from time to time based on the market value of the pool. The City recognizes only its share of the realized earnings of the pool. This revenue is recorded as investment income and the amount is added to the cost base of the investment.

To the extent that investments have no stated rate of return, investment income is recognized as it is received.

**Expenses**

Expenses are recorded in the period in which the goods or services are acquired and a liability is incurred.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**Liability for contaminated sites**

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all of the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the City is directly responsible; or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

In late 2019, the city acquired and accepted responsibility to remediate a site located on Harvey Avenue. In 2020, \$118,674 was spent on cleanup activities, primarily consisting of soil delineation and groundwater monitoring. Further work of \$35,282 was identified resulting in an increase to the liability and work will continue in 2021. A liability in the amount of \$46,609 (2019 - \$130,000) is based on contractor estimates of the work required to be undertaken, actual costs could be higher.

In early 2020 the city acquired and accepted responsibility to clean up contamination found at the site located at 1746 Water Street. Clean up activities took place in 2020 and further work will be undertaken in 2021 to remediate the site. This will consist of Groundwater and vapour monitoring and sampling, drilling investigation and monitoring to assess plume stability and seasonality. A liability in the amount of \$170,000 is based on contractor estimates of the work required to be undertaken, actual costs could be higher.

The City's liability of \$216,609 (2019 - \$130,000) for contaminated sites is included in Accounts payable.

**Use of estimates**

Management has made estimates and assumptions that affect the amounts reported in preparing these financial statements. Actual results could differ from the estimates. Significant areas requiring the use of management estimates relate to the determination of tangible capital assets estimated useful life and related amortization, allowance for doubtful accounts, contaminated site liabilities, landfill post closure costs and settlement costs associated with outstanding legal actions.

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**2. Future accounting changes**

**PS 3280 Asset retirement obligations**

This section revises and replaces the existing Section PS 3270 Solid Waste Landfill Closure and Post-Closure Liability. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

**PS 3160 Public private partnerships**

This section establishes standards on how to account for and report public private partnerships. This section applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

**PS 3400 Revenues**

This section establishes standards on how to account for and report on revenue. This section applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

**PS 3450 Financial instruments**

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted. Adoption of this standard requires corresponding adoption of PS 1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation and PS 3041 Portfolio Investments in the same fiscal period.

- **PS 1201 Financial Statement Presentation**

This section revises the general reporting principles and standards for the disclosure of information in the financial statements. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

- **PS 2601 Foreign Currency Translation**

This section revises and replaces the existing Section PS 2600 Foreign Currency Translation. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

- **PS 3041 Portfolio investments**

This section revises and replaces the existing Section PS 3040 Portfolio investments. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2020**  
**(all tabular amounts reported in 000's of dollars)**

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**3. Financial assets and liabilities**

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term investments with maturities of 90 days or less from the date of acquisition.

**Accounts receivable**

Accounts receivable are recorded net of allowance and are comprised of the following:

<u>Type of receivable</u>	<u>2020</u>	<u>2019</u>
Property tax	\$ 5,718	\$ 4,888
Trade receivables	11,559	13,732
Due from government	1,058	1,448
Due from provincial government	1,285	6,613
Due from regional government	41	146
Utilities	5,344	5,333
Deferred development cost charges	4,778	7,978
	<u>\$ 29,783</u>	<u>\$ 40,138</u>

**Portfolio investments**

Portfolio investments are recorded at cost and are comprised of the following:

<u>Type of investment</u>	<u>2020</u>	<u>2019</u>
Municipal Finance Authority investment funds	\$ 130,507	\$ 108,795
Provincial and bank issued bonds	94,713	100,826
Publicly traded shares	69,016	65,232
Guaranteed Investment Certificates and deposit notes	253,563	274,339
Total Portfolio investments	<u>\$ 547,799</u>	<u>\$ 549,192</u>

The quoted market value of the publicly traded shares at December 31, 2020 was \$103.92 million (2019 - \$103.86 million).

**Operating line of credit**

The City has an operating line of credit with the Royal Bank of Canada for an authorized amount of \$5.0 million, bearing interest at bank prime rate less 0.50%. At December 31, 2020 the balance outstanding was \$nil (2019 - \$nil).

**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**Deferred revenue**

The City records deferred revenue for funds received in advance of services not yet rendered and is recognized into revenue during the period in which the service is provided. The City also records deferred revenue when a contract specifies how the resources are to be used and therefore funds received in advance are deferred until the period in which the requirements are met. Because these funds are restricted in nature they are shown as a liability.

**Deferred Revenue**  
**by Type**

	<u>2019</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2020</u>
Tax prepayments	\$ 20,779	\$ 35,134	\$ 114	\$ 37,361	\$ 18,666
Construction	14,935	2,363	121	1,748	15,671
Grants	145	494	1	21	619
Other	5,301	10,825	10	9,851	6,285
Local Area Service	4,244	432	-	407	4,269
Total	<u>\$ 45,404</u>	<u>\$ 49,248</u>	<u>\$ 246</u>	<u>\$ 49,388</u>	<u>\$ 45,510</u>

**Deferred development cost charges (DCC)**

The City collects development cost charges to pay for a proportionate share of infrastructure related to new growth. In accordance with the Local Government Act, these funds must be deposited into a separate reserve fund. Because these funds are externally restricted in nature they are shown as a liability.

	<u>2019</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2020</u>
Parks	\$ 22,114	\$ 5,727	\$ 526	\$ 7,023	\$ 21,344
Roads	50,642	7,864	1,196	2,055	57,647
Water	14,422	336	340	256	14,842
Wastewater	(8,078)	3,300	(244)	5,057	(10,079)
Total Deferred DCC	<u>\$ 79,100</u>	<u>\$ 17,227</u>	<u>\$ 1,818</u>	<u>\$ 14,391</u>	<u>\$ 83,754</u>

**Long term debt**

Sinking fund installments and mortgage payments on net outstanding debt and loans payable over the next five years and thereafter are as follows:

	<u>Total</u>
2021	\$ 11,036
2022	10,395
2023	9,149
2024	8,711
2025	8,741
2026 and thereafter	44,621
Total	<u>\$ 92,653</u>

**CITY OF KELOWNA**  
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Total outstanding debt issued was \$166.0 million and total debt payable at December 31, 2020 was \$92.7 million (2019 - \$105.6 million).

Schedule 3 provides a breakdown of long term debt.

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**4. Tangible capital assets (TCA) and work in progress**

	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>Work in</b>	<b>Tangible capital</b>	<b>Work in</b>	<b>Tangible capital</b>
	<b>progress</b>	<b>assets (NBV)</b>	<b>progress</b>	<b>assets (NBV)</b>
Land	\$ -	\$ 339,192	\$ -	\$ 319,486
Land improvements	86	35,243	116	36,697
Buildings	9,015	188,373	5,132	191,499
Infrastructure	13,420	1,180,216	55,335	1,140,750
Machinery and equipment	1,571	80,477	973	78,690
	<b>\$ 24,092</b>	<b>\$ 1,823,501</b>	<b>\$ 61,556</b>	<b>\$ 1,767,122</b>

Contributions received in 2020 include:

<b><u>Type of contribution</u></b>	<b>2020</b>	<b>2019</b>
Land	\$ 2,263	\$ 420
Infrastructure	-	82
Total Contributed tangible capital assets	<b>\$ 2,263</b>	<b>\$ 502</b>

Schedule 1 provides a break down of tangible capital assets and work in progress.

During the year, tangible capital assets with a cost of \$82,082 (2019 - \$1,164,262) were written off due to impairment.

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**CITY OF KELOWNA**  
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**5. Accumulated surplus**

	<b>Reserves for Future Expenditures</b>	<b>Statutory Reserves</b>	<b>Fund Surpluses</b>	<b>Investment in Tangible Capital Assets</b>	<b>Total 2020</b>	<b>Total 2019</b>
Accumulated surplus, beginning of year	\$ 266,878	\$ 88,356	\$ 59,209	\$ 1,725,969	\$ 2,140,412	\$ 2,041,982
Annual surplus (deficit)	4,933	2,521	100,340	(45,039)	62,755	98,430
Transfers	3,117	2,951	(86,504)	80,436	-	-
<b>Accumulated surplus, end of year</b>	<b>\$ 274,928</b>	<b>\$ 93,828</b>	<b>\$ 73,045</b>	<b>\$ 1,761,366</b>	<b>\$ 2,203,167</b>	<b>\$ 2,140,412</b>

Accumulated Surplus detail as follows:

<b>Description</b>	<b>Balances, Beginning of Year</b>	<b>Transfer From</b>	<b>Transfer To</b>	<b>Annual Surplus</b>	<b>Balances, End of Year</b>
<b><u>Non-Statutory Reserves</u></b>					
General Fund reserve	\$ 203,538	\$ 18,118	\$ 24,842	\$ 4,554	\$ 214,816
Airport Fund reserve	30,336	12,247	10,043	236	28,368
Waste Water Fund reserve	10,677	1,629	1,875	24	10,947
Water Fund reserve	22,327	7,941	6,292	119	20,797
	<u>266,878</u>	<u>39,935</u>	<u>43,052</u>	<u>4,933</u>	<u>274,928</u>
<b><u>Statutory Reserves</u></b>					
Parking reserve	6,490	2,148	2,985	146	7,473
Land reserve	10,550	6,653	5,149	250	9,296
Capital works, machinery and equipment reserve	71,316	24,914	28,532	2,125	77,059
	<u>88,356</u>	<u>33,715</u>	<u>36,666</u>	<u>2,521</u>	<u>93,828</u>
<b><u>Surplus by Fund</u></b>					
General Fund surplus	4,323	113,590	48,784	73,746	13,263
Airport Fund surplus	2,407	8,699	2,803	5,896	2,407
Waste Water Fund surplus	40,903	12,306	8,739	10,700	48,036
Water Fund surplus	11,576	12,235	-	9,998	9,339
Accumulated Surplus	<u>59,209</u>	<u>146,830</u>	<u>60,326</u>	<u>100,340</u>	<u>73,045</u>
<b><u>Investment in Non Financial Assets</u></b>					
Investment in tangible capital assets	<u>1,725,969</u>	<u>10,876</u>	<u>91,312</u>	<u>(45,039)</u>	<u>1,761,366</u>
<b>Accumulated Surplus</b>	<b>\$ 2,140,412</b>	<b>\$ 231,356</b>	<b>\$ 231,356</b>	<b>\$ 62,755</b>	<b>\$ 2,203,167</b>

**CITY OF KELOWNA**  
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**6. Taxation**

Taxation revenue comprises the following amounts raised less transfers to other governments:

	<u>2020</u>	<u>2019</u>
<b>Taxes collected</b>		
Property taxes	\$ 239,997	\$ 243,487
Local improvement levies	146	146
Frontage tax - water	1,548	1,527
Specified sewer area recoveries	1,292	1,358
Grants in lieu of taxes	655	583
Levies - library	6,797	6,389
Levies - other	1,282	1,168
	<u>251,717</u>	<u>254,658</u>
<b>Less transfers to other governments</b>		
Province of BC (school taxes)	60,941	72,384
BC Assessment Authority	2,262	2,038
Regional Hospital District	13,105	12,147
Regional District of Central Okanagan	13,004	12,465
	<u>89,312</u>	<u>99,034</u>
<b>Net taxes available for municipal purposes</b>	<u>\$ 162,405</u>	<u>\$ 155,624</u>

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**7. Government transfers**

Government transfers are the major source of transfers to the City. Government transfers received are for completed projects that meet the required criteria as set out by the Government body providing the funding. Government transfers do not include grants in lieu of taxes received from the Federal and Provincial governments. Due to the completion of projects in 2020 there are no deferred revenue balances related to these transfers. In 2020 the City received and recorded as revenue the following transfers:

	<u>2020</u>	<u>2019</u>
<b>Operating transfers</b>		
Federal	\$ 176	\$ 166
Provincial	27,078	20,756
Other governments	224	226
	<u>27,478</u>	<u>21,148</u>
<b>Capital transfers</b>		
Federal	357	16,801
Provincial	6,720	15,067
Other governments	24	-
	<u>7,101</u>	<u>31,868</u>
<b>Total Government transfers</b>	<u>\$ 34,579</u>	<u>\$ 53,016</u>

**COVID-19 Safe Restart Grant for Local Governments**

The COVID-19 Safe Restart Grant was received from the Provincial Government in 2020 and is included above under Operating transfers, Provincial. The schedule below provides disclosure of funds received, spent and remaining for the year. A balance at the end of the year represents unused funds received and is included in the General fund reserve.

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ -	\$ -
COVID-19 Safe Restart Grant received	7,884	-
Less funds used to support:		
Airport revenue losses	(500)	-
Gaming revenue losses	(1,517)	-
Corporate preparedness planning	(464)	-
	<u>(2,481)</u>	<u>-</u>
Balance, end of year	<u>\$ 5,403</u>	<u>\$ -</u>

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**8. Contingent liabilities**

**Regional District of Central Okanagan**

Regional District debt is, under the provisions of the Local Government Act, a direct, joint and several liability of the District and each member municipality within the District including the City of Kelowna.

The loan agreements with the Regional District of Central Okanagan and the Municipal Finance Authority provide that if at any time the scheduled payments provided for in the agreements are not sufficient to meet the Authority's obligation with respect to such borrowing, the resulting deficiency becomes a liability of the member municipalities.

**Pension liability**

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2019, the plan has about 213,000 active members and approximately 106,000 retired members. Active members include approximately 41,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis.

The City of Kelowna paid \$7.8 million (2019 - \$7.5 million) for employer contributions while employees contributed \$6.5 million (2019 - \$6.3 million) to the plan in fiscal 2020.

The next valuation will be as at December 31, 2021, with results available in 2022.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

**Post employment benefits and compensated absences**

The City of Kelowna does not accrue expenses for post-employment benefits and compensated absences. Post-employment benefits are benefits expected to be provided after employment but before retirement to employees and their beneficiaries. Compensated absences are benefits for employee absences for which employees will be paid (i.e. sick leave). City employees retiring do not receive any post-employment related benefits that either vests or accrues over the period of employment. Compensated absences: such as sick leave benefits do not accrue and are not vested. The City recognizes the expense for compensated absences when the event obligates the City to pay.



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**Legal actions**

The City of Kelowna is currently engaged in certain legal actions, the outcome of which is not determinable at this time. Accordingly, no provision has been made in the accounts for these actions.

The amount of loss, if any, arising from these contingent liabilities will be recorded in the accounts in the period in which the loss is realized. The City of Kelowna has insurance policies and financial reserves to offset associated risks.

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**9. Commitments**

**Agreements, contracts and purchase orders**

The City has entered into various agreements and contracts for services and construction with periods ranging from one to five years.

The City has purchase orders open as at December 31, 2020 which have not been recorded in the accounts. The balance of these open purchase orders is not determinable at this time. The funding for the majority of these obligations has been set aside in reserves for future expenditures. These amounts will be recorded in the accounts in the period the goods and services, to which they relate, are received.

**Landfill closure and post closure costs**

As required by PSAS and regulated by the Ministry of Environment & Climate Change Strategy, the City has agreed to obligations regarding the operation of the landfill site. These obligations include recognition of closure and post-closure liability. As currently engineered, and based on current waste disposal patterns, the landfill has a remaining life expectancy of 88 years. The estimated length of time needed for post-closure is 80 years.

The present value of future cash flows for the expected landfill closure and post-closure care costs is estimated to be \$30.7 million based on a Design, Operations and Closure Plan (DOCP) completed in 2018.

The City's liability for these landfill closure and post-closure care cost expenditures is recognized as the landfill site's capacity is used. The reported liability of \$4.3 million (2019 - \$4.1 million) represents the portion of the estimated total expenditure recognized as at December 31, 2020. The remaining capacity of the landfill site is estimated at 27.0 million tonnes which is 90% of the site's total capacity.

The liability and annual expenditure is calculated based on the ratio of current usage to the total capacity of the site and the discounted estimated future cash flows associated with closure and post-closure activities using an inflation rate of 0.96% and discount rate of 2.25%.

The reported liability is based on estimates and assumptions with respect to events extending over the remaining life of the landfill. Future events may result in significant changes to the estimated remaining useful life, estimated total costs, total or used capacity and the estimated liability. These would be recognized prospectively as a change in estimate when applicable.

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**YMCA of Okanagan Association loan guarantee agreement**

The City has, under the terms of the partnering agreement between the City of Kelowna and YMCA of Okanagan Association, guaranteed repayment in the event that the YMCA of Okanagan Association defaults on a \$1.8 million, 20-year loan issued in 2001. Under the agreement the City shall resume operation of the facility and assume responsibility for the repayment of the debt incurred by the YMCA of Okanagan Association. During 2010 an amendment was made to the agreement for additional financing of \$700,000 for a 20-year term. Both loans have an interest rate of lender's prime less 0.5%. As at December 31, 2020, the outstanding loan balance was \$560,010 (2019 - \$669,382). The City does not expect to make any payments on the guarantee and no amounts have been accrued in the financial statements.

**Multi-Purpose Facility Public/Private Partnership**

The City of Kelowna, subject to the terms and conditions of the Tripartite Agreement between the City of Kelowna, Royal Bank of Canada and RG Arenas (Kelowna) Ltd., RG Properties Ltd., Prospero Canadian Land Investment Fund Ltd. group of companies, committed to the annual purchase of community use time at the Multi-Purpose Facility with the option to make a lump sum payment before the 15th day of one of year 6, 11, 16, 21 or 26, commencing with the year of substantial completion (November 10, 1999).

The City chose to exercise its option to make a lump sum payment of \$6.7 million in 2019 (Year 21) as prepayment for community use time with no further amounts payable under the Tripartite Agreement until November 9, 2029.

The balance of \$6.1 million in prepaid community use time is included in Prepaid expenses.

**Royal Canadian Mounted Police Services**

The Province of British Columbia and the Federal Government have an agreement with the Royal Canadian Mounted Police to provide police services for various municipalities in the Province, including the City of Kelowna. This agreement has a 20 year term expiring on March 31, 2032.

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**10. Long term investments**

**Kelowna Developments Ltd.**

The investment in Kelowna Developments Ltd., a wholly owned subsidiary, is carried at its cost of \$2. The company is inactive with no assets or liabilities and is being retained for potential future use.

**RG Arenas (Kelowna) Ltd.**

The investment in preferred shares in RG Arenas (Kelowna) Ltd. is carried at its cost of \$6.0 million. The shares were purchased under the terms of the Preferred Share Agreement between the City of Kelowna, RG Arenas (Kelowna) Ltd., RG Properties Ltd., and Prospero Canadian Land Investment Fund Ltd. and represents the City's investment in the Multi-Purpose facility. The City has the option to purchase the Facility for the sum of \$1 and the surrender of the preferred shares within the 10 year period beginning 30 years and one week from the date of Substantial Completion of the Facility, that being November 19, 2029. If exercised, the Facility will be conveyed to the City free and clear of all liens, charges and encumbrances.

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**11. Letters of credit**

In addition to the performance deposits reflected in cash balances, the City is holding irrevocable Letters of Credit in the amount of \$50.0 million (2019 - \$52.7 million) which were received from depositors to ensure their performance of works to be undertaken within the City. These amounts are not reflected in the financial statements but are available to satisfy any liabilities arising from non-performance by the depositors. Included in the \$50.0 million, the City is holding irrevocable Letters of Credit in the amount of \$6.2 million (2019 - \$9.1 million) which are received from developers to ensure payment of development cost charges in future years.

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**12. Trust funds**

In accordance with PSAS, trust funds are not included in the City's consolidated financial statements. The City administers a Cemetery Maintenance Fund for the perpetual care and maintenance of the City owned and operated cemetery. As at December 31, 2020 the Trust Fund balance is \$3.2 million (2019 - \$3.0 million).

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**13. Segmented information**

The City of Kelowna is connecting communities and providing a multitude of services to the citizens of Kelowna. The City's operations and activities are organized and reported by funds and departments. The General Fund reports on operations, funded primarily by property taxes, which include services provided by the City such as general government, protective services, transportation services, recreation and cultural services, as well as public health, and environmental and development services. The City also operates its own airport and City utilities comprised of the wastewater and water systems that are self-sustaining operations. Operating results reported by the following segments are included in Schedule 2.

**General government**

General Government operations are primarily funded by property taxation and business tax revenues. The expenses within the department are for executive and legislative costs, general administration, and other general government areas such as community service grants and rental property operating costs within the municipality. The general revenue reported under the department includes revenues associated with taxation, business tax revenues and senior government payments in lieu of taxes. These revenues have not been apportioned to other departments supported by the General Fund.

**Protective services**

Protective services are comprised of police services provided by the Royal Canadian Mounted Police, fire protection services, building inspection services and bylaw enforcement.

Police services include administration, crime investigation and prevention, traffic, prisoner custody and court liaison expenses.

The fire department is responsible for effective fire protection and public safety services to the City. This includes fire suppression and rescue, prevention and investigation, specialty rescue/first medical responses and fire safety inspections.

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**Transportation services**

Transportation services are responsible for the delivery of municipal public works services related to the planning, development and maintenance of streets and roads, bridges, drainage systems, street lights, traffic lights and signals, parking lots and on-street parking, and public transit as well as maintenance of workshops, yards and other buildings. The mandate is to provide a safe, efficient, environmentally-sensitive and cost-effective transportation network.

**Recreation and cultural services**

Recreation and cultural services provide services related to recreation, leisure and culture including administration and program costs as well as grounds and building maintenance. Facilities managed within this area include parks and playgrounds, arenas, swimming pools, beaches, boat launches, stadiums as well as community and seniors centers. The H2O Adventure & Fitness Centre, Parkinson Recreation Centre, Kelowna Community Theatre, Kelowna Museum, Kelowna Library, Kelowna Art Gallery and the Rotary Centre for the Arts are some of the larger facilities included.

**Other services (Public Health/Environmental/Development services)**

Public health services are comprised of cemetery operations and maintenance, environmental and development services including community planning and zoning as well as landfill operations.

**Airport services**

The Airport, owned and operated by the City of Kelowna, provides quality airport services in a safe and cost effective manner in compliance with Federal regulations. The Airport is accounted for in its own fund.

**Wastewater services**

Kelowna's sanitary sewer system collects, conveys, treats and disposes of domestic wastewater (derived from the home) and industrial wastewater (resulting from business use, manufacturing and processing). The system currently services approximately 70% of Kelowna's population and continues to be extended to unserved areas. Kelowna's wastewater system has a treatment capacity of 72 million litres per day. Wastewater Utility is accounted for in its own fund.

**Water services**

The Water Utility is responsible for planning, designing, building, operating and maintaining the City's Water Utility and is one of four water suppliers operating within Kelowna's boundaries. The Water Utility is accounted for in its own fund.

**Statutory reserves**

Statutory Reserves include funds for parking, land and capital works, machinery and equipment.

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**14. Expenses by object**

Total consolidated expenses by object are itemized in Schedule 2 – Segmented information.

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**CITY OF KELOWNA**  
**Notes to the Consolidated Financial Statements**  
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**15. Budget data**

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15<sup>th</sup> of each year. Subsequent amendments have been made by Council to reflect changes in the budget as required by law. Amortization of tangible capital assets was not included in the budget. The table below shows the reconciliation between the approved budget and the budget presented in these consolidated financial statements.

	<u><b>Budget Amount</b></u>
<b>Revenues:</b>	
Operating budget	\$ 327,890
Capital budget	49,212
	<u>377,102</u>
<b>Expenses:</b>	
Operating budget	252,000
Capital budget	238,049
	<u>490,049</u>
Annual deficit per approved budget	(112,947)
Add: tangible capital asset purchases	238,049
Annual surplus per statement of operations	<u>\$ 125,102</u>

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**16. Contractual rights**

The City of Kelowna contractual rights arise from rights to receive payments from lease agreements. During 2020, the City of Kelowna entered into a long term lease agreement with Rise Commercial Developments Inc to lease 350 Doyle Avenue commencing in 2021. The long term lease is for \$7 million to be received over 80 years with an option to renew for an additional 19 years.

The City of Kelowna has contractual rights to receive the following amounts of lease revenue in the next 5 years.

	<u><b>Total</b></u>
2021	\$ 87.5
2022	87.5
2023	87.5
2024	87.5
2025	87.5
2026 and thereafter	6,562.5
Total	<u>\$ 7,000</u>

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**17. Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation format adopted in the current year.

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**CITY OF KELOWNA**  
**Schedule 1 - Tangible Capital Assets**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	<b>Machinery &amp; Equipment</b>						<b>Subtotal Machinery &amp; Equipment</b>
	<b>Land</b>	<b>Land Improvements</b>	<b>Buildings</b>	<b>Vehicles</b>	<b>Machinery &amp; Equipment</b>	<b>Computers</b>	
<b>Cost</b>							
Balance, beginning of year	\$ 319,486	\$ 77,974	\$ 351,584	\$ 34,207	\$ 103,011	\$ 19,516	\$ 156,734
Add: additions during the year	27,827	945	2,094	1,753	3,240	1,975	6,968
Add: transfers to tangible capital assets	-	192	3,470	1,021	1,992	830	3,843
Less: assets held for resale	(6,100)	-	-	1,054	-	-	1,054
Less: disposals during the year	(2,021)	-	-	(1,883)	(8)	-	(1,891)
<b>Balance, end of year</b>	<b>339,192</b>	<b>79,111</b>	<b>357,148</b>	<b>36,152</b>	<b>108,235</b>	<b>22,321</b>	<b>166,708</b>
<b>Accumulated Amortization</b>							
Balance, beginning of year	-	41,277	160,085	20,437	47,007	10,600	78,044
Add: amortization	-	2,591	8,690	1,988	4,680	2,247	8,915
Less: accumulated amortization on disposals	-	-	-	(781)	-	-	(781)
Less: amortization on assets held for resale	-	-	-	53	-	-	53
<b>Balance, end of year</b>	<b>-</b>	<b>43,868</b>	<b>168,775</b>	<b>21,697</b>	<b>51,687</b>	<b>12,847</b>	<b>86,231</b>
<b>Net Book Value of Tangible Capital Assets</b>	<b>\$ 339,192</b>	<b>\$ 35,243</b>	<b>\$ 188,373</b>	<b>\$ 14,455</b>	<b>\$ 56,548</b>	<b>\$ 9,474</b>	<b>\$ 80,477</b>

	<b>Infrastructure</b>								
	<b>Plant &amp; Facilities</b>	<b>Roads, Lanes, Sidewalks &amp; Bike Paths</b>	<b>Bridges, Tunnels &amp; Overpasses</b>	<b>Underground, Overhead &amp; Other Networks</b>	<b>Airport Infrastructure</b>	<b>Subtotal Infrastructure</b>	<b>Work In Progress</b>	<b>Total 2020</b>	<b>Total 2019</b>
<b>Cost</b>									
Balance, beginning of year	\$ 212,185	\$ 570,008	\$ 35,152	\$ 1,130,461	\$ 81,641	\$ 2,029,447	\$ 61,556	\$ 2,996,781	\$ 2,875,397
Add: additions during the year	1,899	5,522	-	2,593	701	10,715	46,826	95,375	131,495
Add: transfers to tangible capital assets	5,796	3,357	-	64,452	3,180	76,785	(84,290)	-	-
Less: assets held for resale	-	-	-	-	-	-	-	(5,046)	(1,670)
Less: disposals during the year	-	-	-	(75)	-	(75)	-	(3,987)	(8,441)
<b>Balance, end of year</b>	<b>219,880</b>	<b>578,887</b>	<b>35,152</b>	<b>1,197,431</b>	<b>85,522</b>	<b>2,116,872</b>	<b>24,092</b>	<b>3,083,123</b>	<b>2,996,781</b>
<b>Accumulated Amortization</b>									
Balance, beginning of year	89,394	332,506	9,682	423,659	33,456	888,697	-	1,168,103	1,106,429
Add: amortization	7,369	19,795	540	17,507	2,748	47,959	-	68,155	67,697
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(781)	(5,970)
Less: amortization on assets held for resale	-	-	-	-	-	-	-	53	(53)
<b>Balance, end of year</b>	<b>96,763</b>	<b>352,301</b>	<b>10,222</b>	<b>441,166</b>	<b>36,204</b>	<b>936,656</b>	<b>-</b>	<b>1,235,530</b>	<b>1,168,103</b>
<b>Net Book Value of Tangible Capital Assets</b>	<b>\$ 123,117</b>	<b>\$ 226,586</b>	<b>\$ 24,930</b>	<b>\$ 756,265</b>	<b>\$ 49,318</b>	<b>\$ 1,180,216</b>	<b>\$ 24,092</b>	<b>\$ 1,847,593</b>	<b>\$ 1,828,678</b>

**CITY OF KELOWNA**  
**Schedule 2 - Segmented Information**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation &amp; Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2020</u>
<b>Revenue</b>										
Taxation	\$ 159,393	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ 1,292	\$ 1,574	\$ -	\$ 162,405
Fees and charges	12,399	7,650	12,686	3,169	28,203	18,887	18,754	16,043	355	118,146
Interest earned	9,129	-	151	-	-	301	1,044	408	2,166	13,199
DCC contributions	-	-	2,869	6,210	-	-	5,056	256	-	14,391
Government transfers	12,282	752	12,698	1,107	141	1,149	186	6,264	-	34,579
Other capital contributions	3,309	-	-	-	-	194	850	361	-	4,714
Gain on disposal of tangible capital assets	884	-	1,760	243	-	-	-	-	-	2,887
	<u>197,396</u>	<u>8,402</u>	<u>30,310</u>	<u>10,729</u>	<u>28,344</u>	<u>20,531</u>	<u>27,182</u>	<u>24,906</u>	<u>2,521</u>	<u>350,321</u>
<b>Expenses</b>										
Salaries and benefits	21,435	30,722	9,811	10,162	8,490	4,221	3,675	3,954	-	92,470
Contract and professional services	5,085	2,611	25,331	7,701	8,731	1,031	771	637	-	51,898
RCMP Contract	-	29,756	-	-	-	-	-	-	-	29,756
Materials and supplies	6,171	1,630	5,784	11,232	1,495	6,317	1,494	1,518	-	35,641
Equipment	664	405	3,592	1,594	2,237	16	879	749	-	10,136
Allocations	(7,390)	(29)	(109)	(188)	1,919	1,852	3,077	953	-	85
Cost recoveries	(1,908)	(2,232)	(9,537)	(177)	(1,469)	(398)	(333)	(525)	-	(16,579)
Grants and external transfers	2,211	81	4	1,591	226	-	-	13	-	4,126
Utilities	154	296	1,351	1,821	359	537	1,133	1,274	-	6,925
Loss on disposal of tangible capital assets	21	-	-	-	798	-	-	-	-	819
Write down of tangible capital assets	-	-	82	-	-	-	-	-	-	82
Amortization of tangible capital assets	4,782	1,823	27,555	7,971	2,043	7,748	10,531	5,702	-	68,155
<b>Total before Debt</b>	<u>31,225</u>	<u>65,063</u>	<u>63,864</u>	<u>41,707</u>	<u>24,829</u>	<u>21,324</u>	<u>21,227</u>	<u>14,275</u>	<u>-</u>	<u>283,514</u>
Debt interest and fiscal services	2,484	-	-	-	-	584	687	297	-	4,052
<b>Total operating expenses</b>	<u>33,709</u>	<u>65,063</u>	<u>63,864</u>	<u>41,707</u>	<u>24,829</u>	<u>21,908</u>	<u>21,914</u>	<u>14,572</u>	<u>-</u>	<u>287,566</u>
<b>Annual Surplus (Deficit)</b>	<u>\$ 163,687</u>	<u>\$ (56,661)</u>	<u>\$ (33,554)</u>	<u>\$ (30,978)</u>	<u>\$ 3,515</u>	<u>\$ (1,377)</u>	<u>\$ 5,268</u>	<u>\$ 10,334</u>	<u>\$ 2,521</u>	<u>\$ 62,755</u>



**CITY OF KELOWNA**  
**Schedule 2 - Segmented Information**  
**For the Year Ended December 31, 2019**  
**(in thousands of dollars)**

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation &amp; Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2019</u>
<b>Revenue</b>										
Taxation	\$ 152,569	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ 1,358	\$ 1,551	\$ -	\$ 155,624
Fees and charges	17,569	10,388	16,227	5,586	27,735	38,826	18,452	15,690	43	150,516
Interest earned	9,463	-	-	-	-	660	1,112	832	2,249	14,316
DCC contributions	-	-	4,122	6,427	-	-	6,117	175	-	16,841
Government transfers	3,339	4,228	9,739	729	3,687	297	241	30,756	-	53,016
Other capital contributions	1,738	-	-	-	-	128	2,282	375	-	4,523
Gain on disposal of tangible capital assets	1,171	-	63	-	-	7	-	-	-	1,241
	<u>185,849</u>	<u>14,616</u>	<u>30,297</u>	<u>12,742</u>	<u>31,422</u>	<u>39,918</u>	<u>29,562</u>	<u>49,379</u>	<u>2,292</u>	<u>396,077</u>
<b>Expenses</b>										
Salaries and benefits	20,707	29,528	9,228	11,829	7,647	4,619	3,424	3,556	-	90,538
Contract and professional services	6,639	2,356	27,591	8,895	9,309	1,772	712	936	-	58,210
RCMP Contract	-	31,235	-	-	-	-	-	-	-	31,235
Materials and supplies	6,303	1,771	6,808	11,014	2,027	8,115	1,464	1,566	-	39,068
Equipment	543	324	2,994	1,895	2,376	23	748	548	-	9,451
Allocations	(7,162)	(50)	(93)	(172)	1,933	1,690	3,107	840	-	93
Cost recoveries	(2,133)	(1,875)	(11,519)	(318)	(1,521)	(723)	(272)	(541)	-	(18,902)
Grants and external transfers	9	117	20	1,904	3,702	-	-	1	-	5,753
Utilities	188	304	1,288	2,080	330	573	1,151	1,076	-	6,990
Loss on disposal of tangible capital assets	1	1,084	-	-	-	-	-	-	-	1,085
Write down of tangible capital assets	696	-	51	186	-	196	24	11	-	1,164
Amortization of tangible capital assets	3,969	1,838	28,128	8,333	1,908	7,850	10,571	5,100	-	67,697
<b>Total before Debt</b>	<u>29,760</u>	<u>66,632</u>	<u>64,496</u>	<u>45,646</u>	<u>27,711</u>	<u>24,115</u>	<u>20,929</u>	<u>13,093</u>	<u>-</u>	<u>292,382</u>
Debt interest and fiscal services	2,740	-	-	-	-	584	1,644	297	-	5,265
<b>Total operating expenses</b>	<u>32,500</u>	<u>66,632</u>	<u>64,496</u>	<u>45,646</u>	<u>27,711</u>	<u>24,699</u>	<u>22,573</u>	<u>13,390</u>	<u>-</u>	<u>297,647</u>
<b>Annual Surplus (Deficit)</b>	<u>\$ 153,349</u>	<u>\$ (52,016)</u>	<u>\$ (34,199)</u>	<u>\$ (32,904)</u>	<u>\$ 3,711</u>	<u>\$ 15,219</u>	<u>\$ 6,989</u>	<u>\$ 35,989</u>	<u>\$ 2,292</u>	<u>\$ 98,430</u>

**CITY OF KELOWNA**  
**Schedule 3 - Long Term Debt**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

**Long term debt - General Fund**

**Debtenture Debt**

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2019</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2020</u>	<u>Sinking Fund Balance December 31, 2020</u>	<u>Current Interest Rate</u>
	<b>Public Works</b>					%
2022	Chapman Parkade	\$ 890	\$ 4,071	\$ 607	\$ 3,464	2.25
	<b>Local Improvements</b>					
2035	Lawrence Ave LAS	282	345	268	77	3.00
	<b>Recreation and Cultural</b>					
2021	Kokanee Gym Facility	75	500	38	462	1.75
2027	H2O Centre	13,624	27,500	12,145	15,355	2.25
2027	Kokanee Gymnastic	396	800	353	447	2.25
2028	H2O Centre	1,094	2,000	991	1,009	2.90
2035	Police Facilities	17,019	20,000	16,208	3,792	2.75
2035	Library Parkade Ext & Memorial Parkade	12,764	15,000	12,156	2,844	2.75
2036	Police Facilities	15,133	17,000	14,466	2,534	2.60
2037	Police Facilities	2,773	3,000	2,655	345	3.15
2038	Police Facilities	1,310	1,360	1,257	103	3.15
<b>Total Debt - General Fund</b>		<b>\$ 65,360</b>	<b>\$ 91,576</b>	<b>\$ 61,144</b>	<b>\$ 30,432</b>	

**CITY OF KELOWNA**  
**Schedule 3 - Long Term Debt**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

**Long term debt - Wastewater Fund**

**Debenture Debt**

<b>Year of Maturity</b>	<b>Purpose</b>	<b>Debt Balance December 31, 2019</b>	<b>Amount of Issue</b>	<b>Debt Balance December 31, 2020</b>	<b>Sinking Fund Balance December 31, 2020</b>	<b>Current Interest Rate</b>
2022	Spec. Area 22A - Gerstmar	\$ 9	\$ 40	\$ 6	\$ 34	1.75
2024	Spec. Area 21A - McKenzie Bench	469	1,350	384	966	2.25
2024	Spec. Area 22B - Vista Rd	28	80	23	57	2.25
2024	Spec. Area 22C - Hein Rd	92	266	76	190	2.25
2024	Spec. Area 22D - Elwyn Rd	52	149	42	107	2.25
2024	Spec. Area 22E - Dease Rd	33	96	27	69	2.25
2024	Spec. Area 22F - Mills Rd	119	342	97	245	2.25
2024	Spec. Area 29 - Campion Cambro	304	874	248	626	2.25
2024	Spec. Area 30 - Acland	127	364	104	260	2.25
2025	Spec. Area 20 - North Rutland	2,609	6,822	2,210	4,612	0.91
2025	Spec. Area 28A - Okaview	244	638	207	431	0.91
2028	Spec Area 26 - Fisher Rd	1,106	2,021	1,001	1,020	2.90
2028	Spec Area 34 - Country Rhodes	238	435	216	219	2.90
2028	Spec Area 36 - Clifton	146	267	132	135	2.90
<b>Sewage Treatment Plant</b>						
2020	Waste Water Treatment Expansion	1,185	10,000	-	10,000	1.28
2031	Brandt's Creek Tradewaste Treatment	2,051	3,800	1,792	2,008	3.25
<b><u>Total Debt - Wastewater Fund</u></b>		<b><u>\$ 8,812</u></b>	<b><u>\$ 27,544</u></b>	<b><u>\$ 6,565</u></b>	<b><u>\$ 20,979</u></b>	

**CITY OF KELOWNA**  
**Schedule 3 - Long Term Debt**  
**For the Year Ended December 31, 2020**  
**(in thousands of dollars)**

**Long term debt - Water Fund**

**Debenture Debt**

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2019</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2020</u>	<u>Sinking Fund Balance December 31, 2020</u>	<u>Current Interest Rate</u>
	<b>Specified Area Programs</b>					%
2023	Spec Area 16 - Byrns	\$ 11	\$ 39	\$ 9	\$ 30	2.85
2024	Spec Area 18 - Lakeshore	8	24	7	17	2.25
2028	Spec Area 26 - Fisher Rd	163	297	147	150	2.90
2038	Local Area Service - Aspen Rd	46	48	44	4	3.20
	<b>Water Improvement Programs</b>					
2028	Cedar Creek Pump Station	4,145	7,577	3,754	3,823	2.90
2031	Poplar Point Pump Station Upgrade	1,381	2,000	1,290	710	3.25
	<b>Total Debt - Water Fund</b>	<b>\$ 5,754</b>	<b>\$ 9,985</b>	<b>\$ 5,251</b>	<b>\$ 4,734</b>	

**Long term debt - Airport Fund**

**Debenture Debt**

2025	Airport Expansion	\$ 4,805	\$ 7,500	\$ 4,072	\$ 3,428	2.75
2026	Airport Expansion	2,573	3,500	2,242	1,258	2.60
2026	Airport Expansion	2,191	3,000	1,905	1,095	2.10
2027	Airport Expansion	6,583	8,000	5,843	2,157	2.80
	<b>Total Debt - Airport Fund</b>	<b>\$ 16,152</b>	<b>\$ 22,000</b>	<b>\$ 14,062</b>	<b>\$ 7,938</b>	

**Long term debt - Other**

2020	Wastewater - Commonage	\$ 110	\$ 439	\$ -		nil
2021	Airport - 3770 Bulman road	1,800	4,500	900		nil
2022	General Land - Diamond Mountain	4,675	6,900	2,450		nil
2023	General Land - Dewdney Park	2,952	2,952	2,214		nil
2029	Airport - Enterprise Rental Car Kiosk	-	73	67		nil
	<b>Total Debt - Other</b>	<b>\$ 9,537</b>	<b>\$ 14,864</b>	<b>\$ 5,631</b>		

<b>Total City Long Term Debt</b>	<b>\$ 105,615</b>	<b>\$ 165,969</b>	<b>\$ 92,653</b>
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City of  
**Kelowna**

City Hall  
Financial Services  
1435 Water Street  
Kelowna, BC, V1Y 1J4

Tel 250-469-8542  
[financeyearend@kelowna.ca](mailto:financeyearend@kelowna.ca)

**kelowna.ca**

# Memo



**Date:** April 29, 2021  
**To:** Audit Committee  
**From:** Financial Services Divisional Director  
**Subject:** 2020 City of Kelowna Financial Health Indicators  
Report Prepared by: Corporate Finance Manager

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**Purpose:**

To provide the Audit Committee with a report using key performance indicators that shows the overall financial health of the City for the year ended 2020. The report also provides 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. Comparative financial information for 2020 will be available when the Local Government Data Entry (LGDE) statistics are published in the fall.

**Background:**

The Financial Services Division 2019-2023 Strategic Plan and the Council adopted Principles and Strategies for Financial Strength and Stability focus on strong financial stewardship. The Council adopted Principles and Strategies for Financial Strength and Stability is used to guide decision-making within the City and to help realize financial goals and, ultimately, the vision for Kelowna.

The principles and strategies guide the development of detailed policies, setting boundaries for budgeting and planning decisions. Performance measures and Financial Reporting are the essential communication tools that tell us how the City is performing year to year.

The City also compares our performance to other Municipalities and the Okanagan region. These comparative figures were taken from provincially provided LGDE reports. The ratio analysis focuses on the 10 BC Municipalities with a population of greater than 100,000 (Abbotsford, Burnaby, Coquitlam, Delta, Langley, North Vancouver, Richmond, Saanich, Surrey and Vancouver) and the Okanagan Region (Kamloops, Penticton, Vernon and West Kelowna).

2020 Comparative figures for other local governments will be available in the fall of 2021 and will be included at next year's Audit Committee meeting.

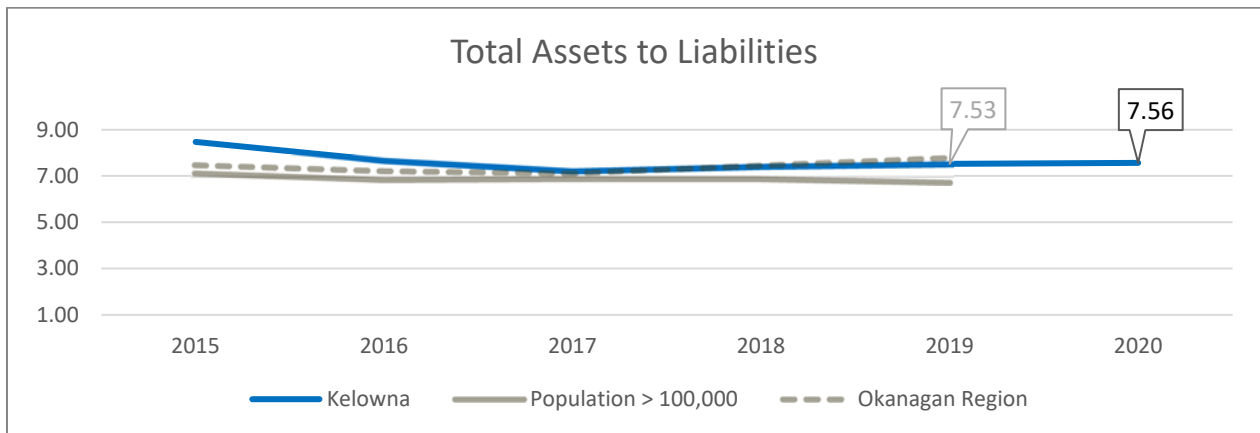
The Financial Health indicators outlined in this report provide a way to measure how decisions made during the year have affected the sustainability, flexibility and vulnerability of the City. They also link the financial results to the overall economic and fiscal environment that the City operates in.

## Financial Health Indicators:

**Sustainability Ratios** – Measure the degree to which a Municipality can maintain its existing financial obligations without increasing the debt or tax burden relative to the economy in which it operates.

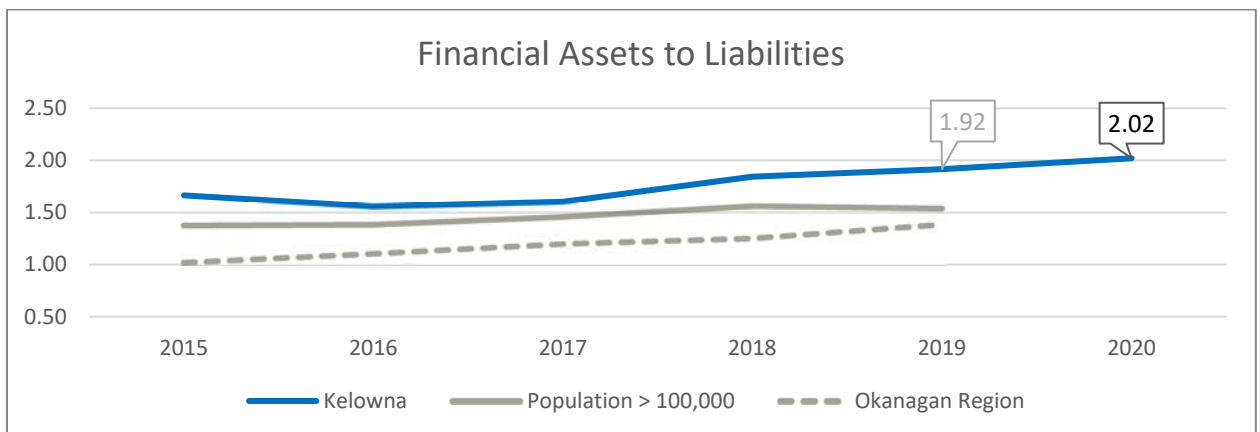
### Indicator 1: Total Assets to Liabilities

This ratio measures the extent to which a government finances its operations and capital purchases through issuing debt, development cost charges and collecting deferred revenue. A higher total assets to liabilities ratio indicates the City is using financing options in a responsible and sustainable manner. The City's ratio remains steady in 2020 as both assets and liabilities increased at a comparable rate from 2019.



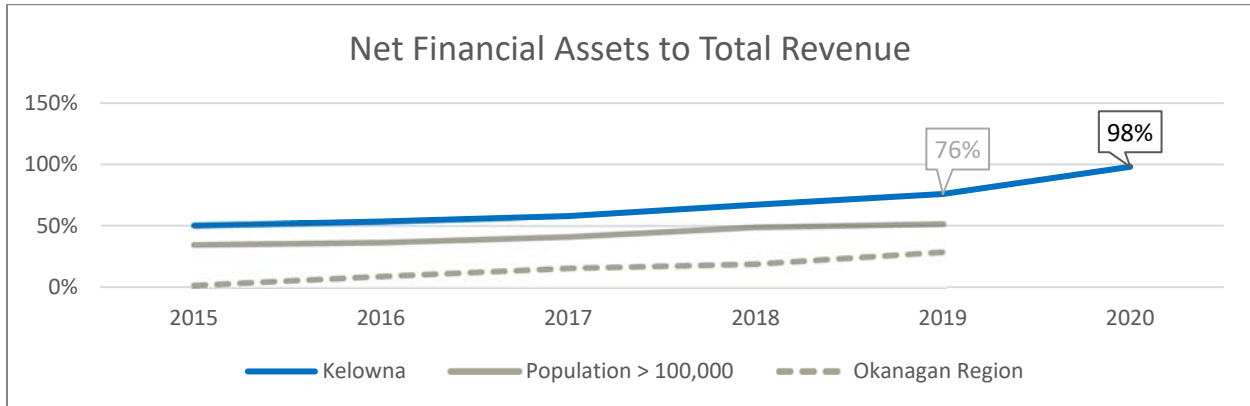
### Indicator 2: Financial Assets to Liabilities

Measures liquidity and the City's ability to meet financial obligations. A ratio > 1.0 indicates the City is well positioned to meet its financial obligations without the need to fund past expenditures with future revenues. This ratio has been trending upwards in recent years, with financial assets growing at a greater rate (\$47.7M) than that of financial liabilities (\$7.6M), driven mostly by the increase in cash and short-term investments.

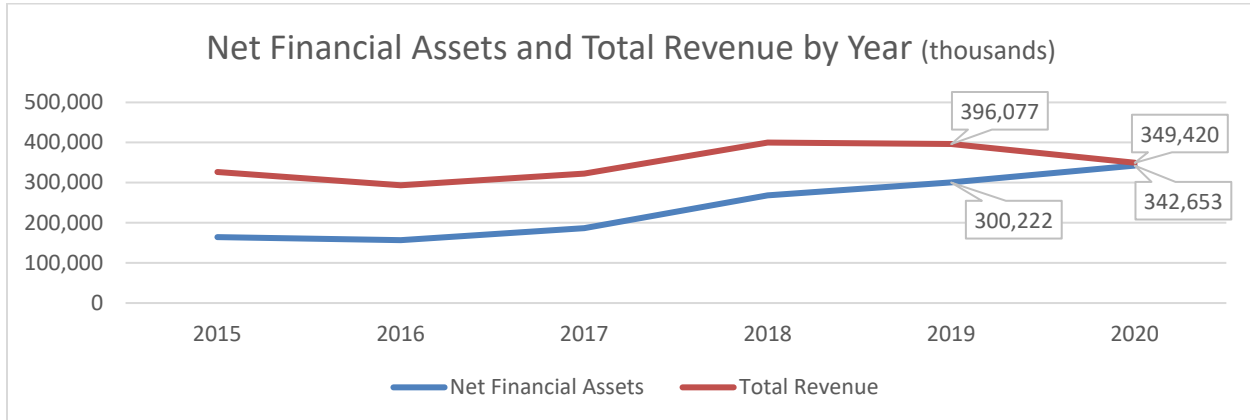


Indicator 3: Net Financial Assets (Financial Assets-Liabilities) to Total Revenue

This ratio provides a measure of revenue that can be used to fund current and future expenditures\*. An increasing ratio normally indicates stability and that the City is well positioned to meet its financial obligations now and in the future. In this case, the increase from 76% in 2019 to 98% in 2020 was driven mostly by decreasing revenue, rather than an increasing rate of growth in net financial assets. The increase from 2019 to 2020 is due to an increase in net financial assets of \$40.0M over prior year, and a decrease in revenue of \$44.4M.



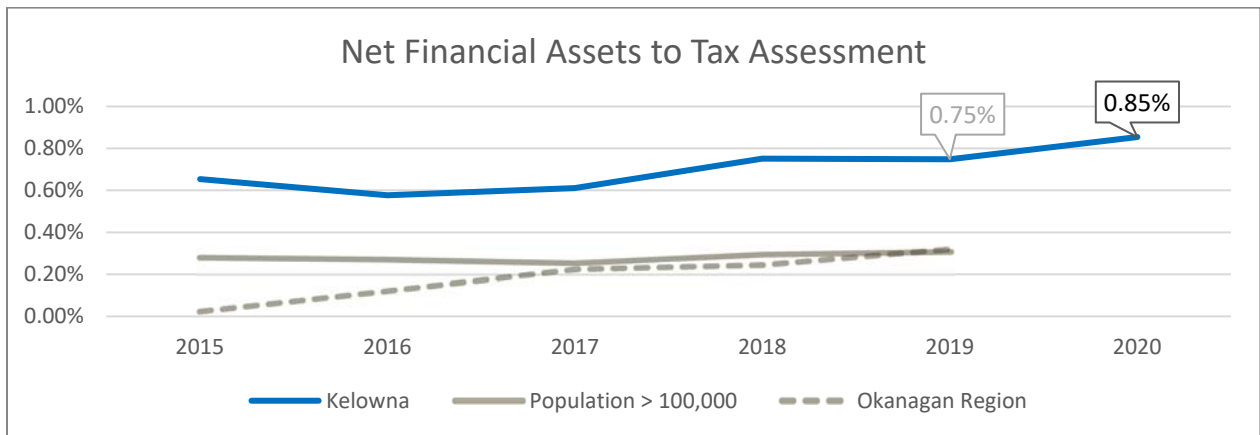
\*This measure assumes stable or increasing revenue year over year. The increase in this ratio for 2020 was a result of decreasing non-tax revenues, primarily driven by COVID-19. As shown in the chart below, revenues decreased from 2019, while net financial assets continued to increase at a normal rate.





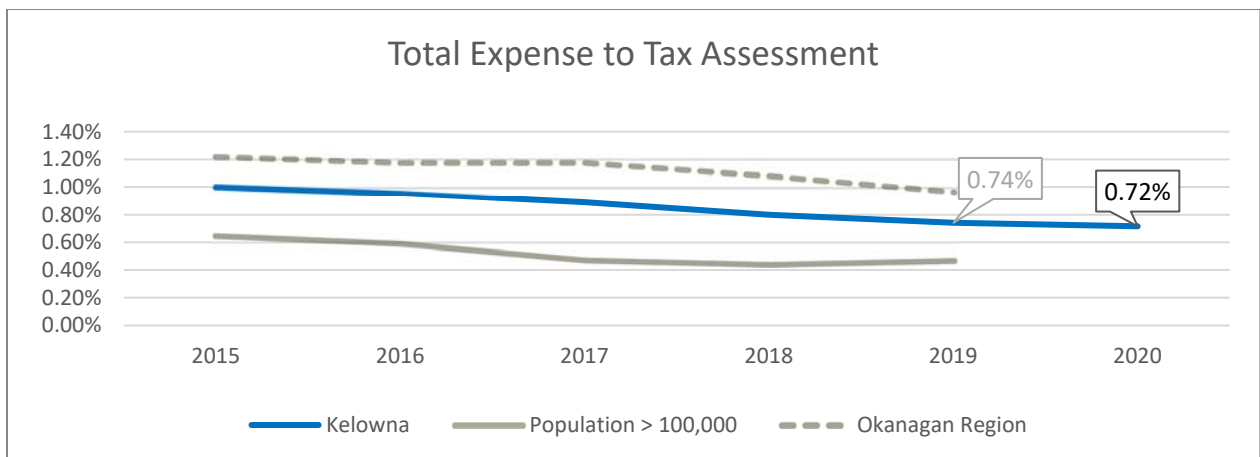
#### Indicator 4: Net Financial Assets (Financial Assets-Liabilities) to Tax Assessment

Measures the amount of available operating assets to cover future obligations relative to the change in the economy measured through the tax assessment. The relative stability in the graph from 2018-2019 shows that the City's net financial assets increased at rate comparable to that of the economy (as approximated by the change in the tax assessment amount). In 2020 the graph shows that growth in the City's Net Financial Assets increased at a greater rate than that of the economy due to a combination of an increase in investments, and a reduction in long term debt. It also shows that as of December 31, 2019 the City has more net financial assets per tax assessment dollars than the other Municipalities. The increase from 2019 to 2020 was due to financial assets increasing at a greater rate than tax assessment values.



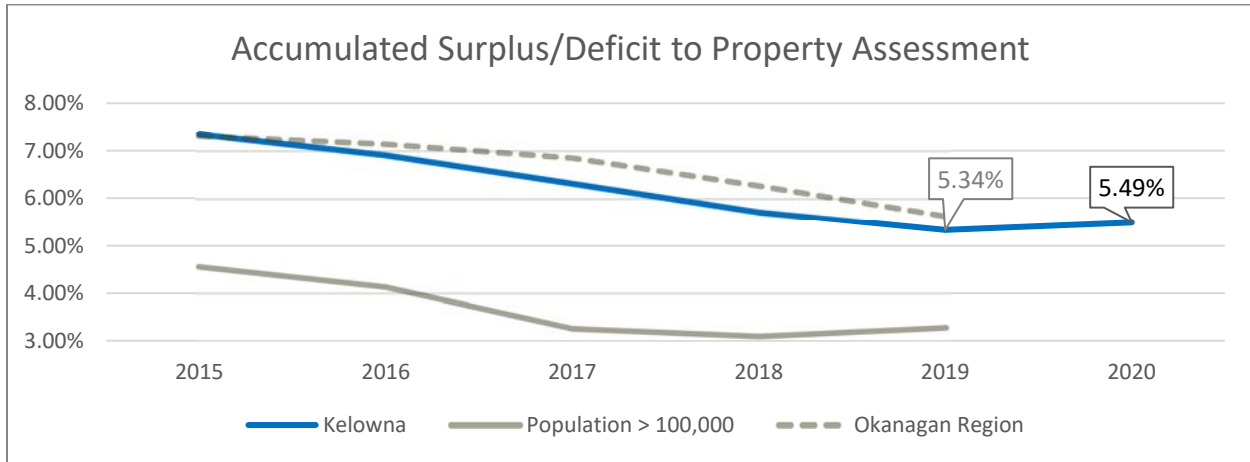
#### Indicator 5: Total Expense to Tax Assessment

Measures the ratio of spending relative to the tax base and the efficiency with which the City leverages increasing tax revenues. For 2020 this graph shows that the City's expenses remained relatively constant to the tax assessment and aligned with the change in the economy. It also shows that expenses were higher per assessment for the City than those for other Municipalities with populations greater than 100,000. The ratio remains relatively stable with a slight decrease into 2020 due to a 3% decrease in expenses over prior year, while property tax assessment increased by 2%.



Indicator 6: Accumulated Surplus/Deficit to Tax Assessment

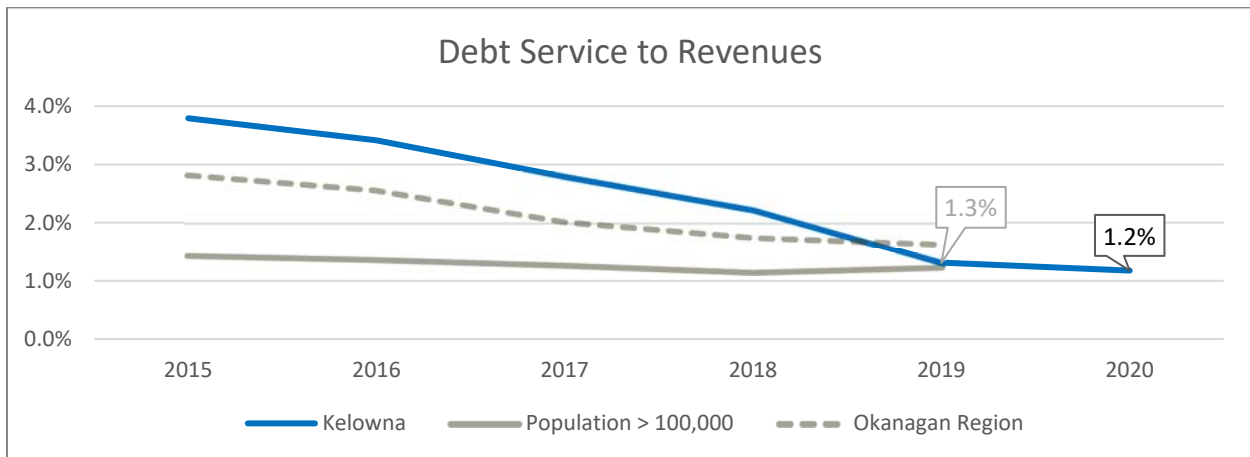
Measures the total economic resources available to provide future operations relative to the change in the economy measured through the change in tax assessments. After several years of downward trends, 2020 shows the City's accumulated surplus growing at a rate slightly faster than the economy. The difference between the City and Municipalities over 100,000 shows that the City's surplus compared to tax assessment is higher by 2-3% during the time frame.



**Flexibility Ratios** – Measure the degree to which a Municipality can change its debt or tax burden on the economy in which it operates to meet its existing financial obligations.

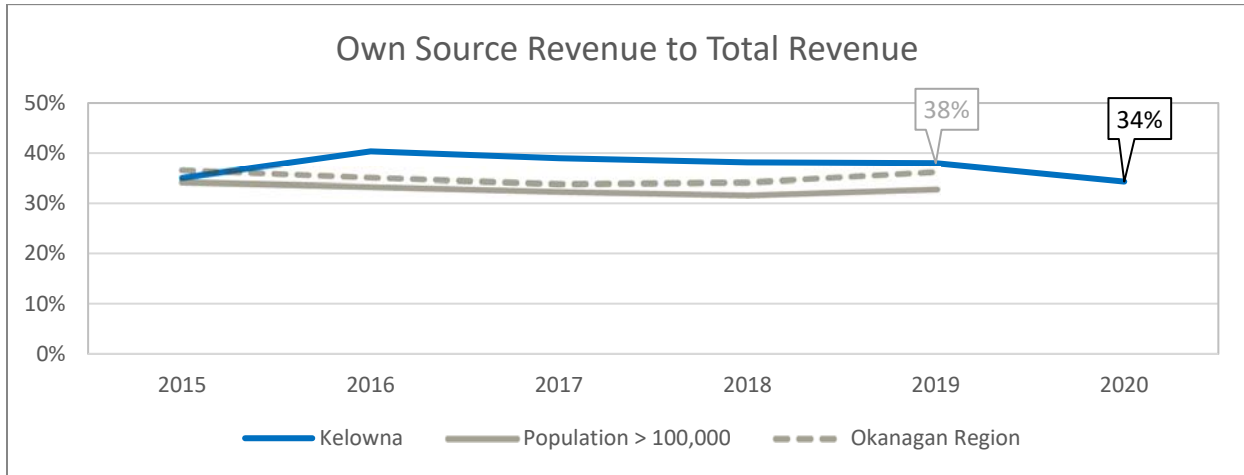
Indicator 7: Debt Service to Revenues

This ratio measures the percentage of current revenues required to service debt incurred to fund past expenditures and the capacity for the City to incur additional debt. A smaller debt service to revenue ratio indicates that the City has greater flexibility in future borrowing decisions and more revenue to use for other opportunities. The graph shows that in 2019 1.3% of revenues were used to pay for debt service charges and that the amount remained relatively steady in 2020 at 1.2%. The graph also shows that the City's borrowing ratio is currently in line with other municipalities.

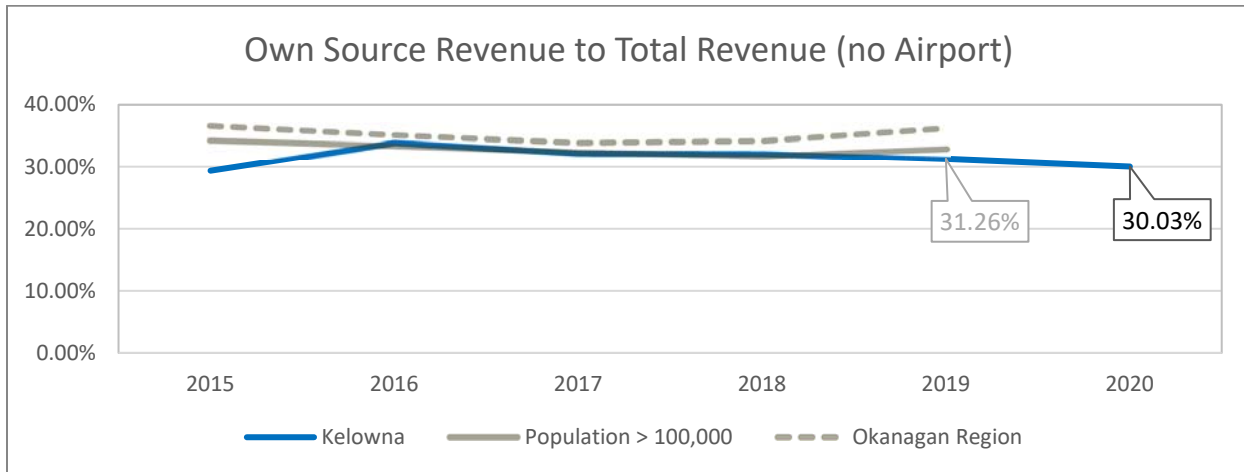


Indicator 8: Own Source Revenue to Total Revenue

Measures the extent to which own source revenues make up total revenues. This is a gauge for how much flexibility the City has to deal with changing revenue sources. For 2018 and 2019 this graph shows that sale of services revenues consistently made up 38% of total revenues. In 2020 this ratio decreased to 34% as many sources of non-tax revenue decreased due to COVID-19 public health restrictions and travel advisories resulting in decreases in air travel, public transit, and use of recreational facilities.

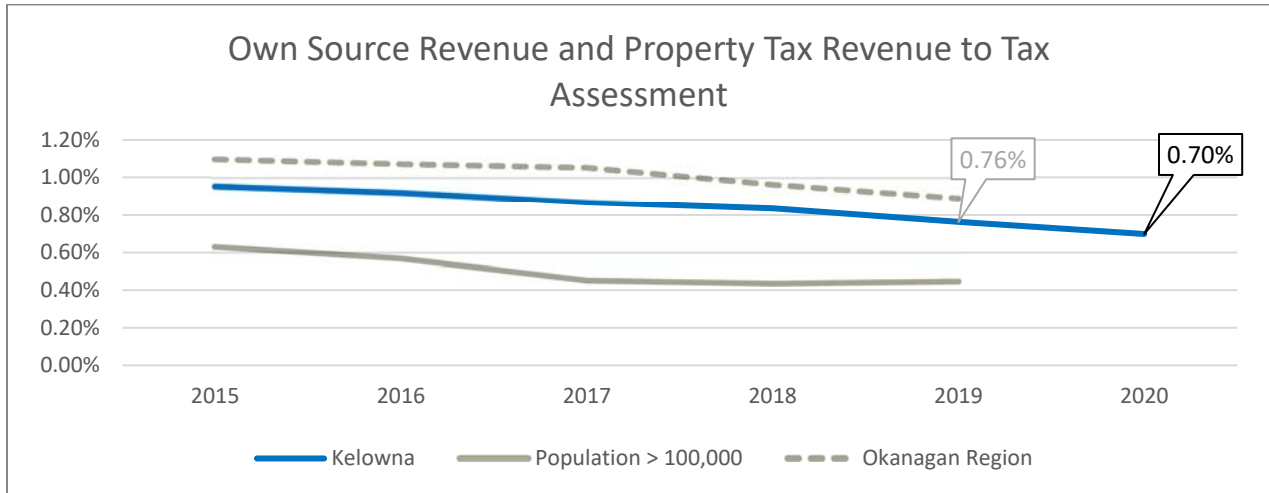


The graph below shows the same data, but with airport revenue removed. This measure gives a clearer comparative ratio as most British Columbia municipalities do not have a city-owned airport or the associated airport revenue. While we still see a small decrease from 2019 to 2020, the effect is much less pronounced than that in the chart above. The small decrease below is primarily due to the completion of the SEKID project and the associated decrease in grant revenue tied to that project.



### Indicator 9: Own Source Revenue and Property Tax Revenue to Tax Assessment

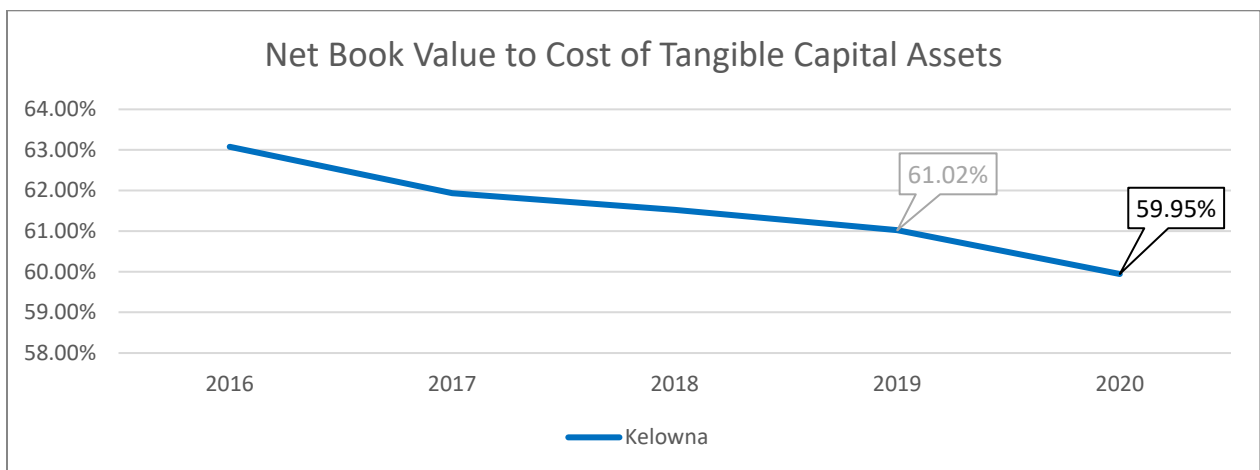
Measures the extent to which the City is taking income out of the economy either through taxation or user fees. For 2020 this graph shows that the City receives \$0.70 from own source revenue per \$1 of tax assessment. It also shows that the City receives more from own source revenues than Municipalities of a similar size and less than other Municipalities in the region as of December 31, 2019. The ratio declined slightly in 2020 due to decreases in own source revenue mentioned in the previous indicator.



### Indicator 10: Net Book Value to Cost of Tangible Capital Assets

Measures the estimated useful life of the City's tangible capital assets available to provide products and services. A larger ratio indicates newer tangible capital assets, or a more frequent replacement rate. A smaller ratio indicates older tangible capital assets and may indicate that greater capital expenditures may be required for replacement. For 2020 this graph shows that tangible capital assets have 59.95% of their original cost left to be depreciated, or that the City has used 40.05% of its assets useful life.

Comparative information for this graph is not available as this data is not reported in the LGDE statements.

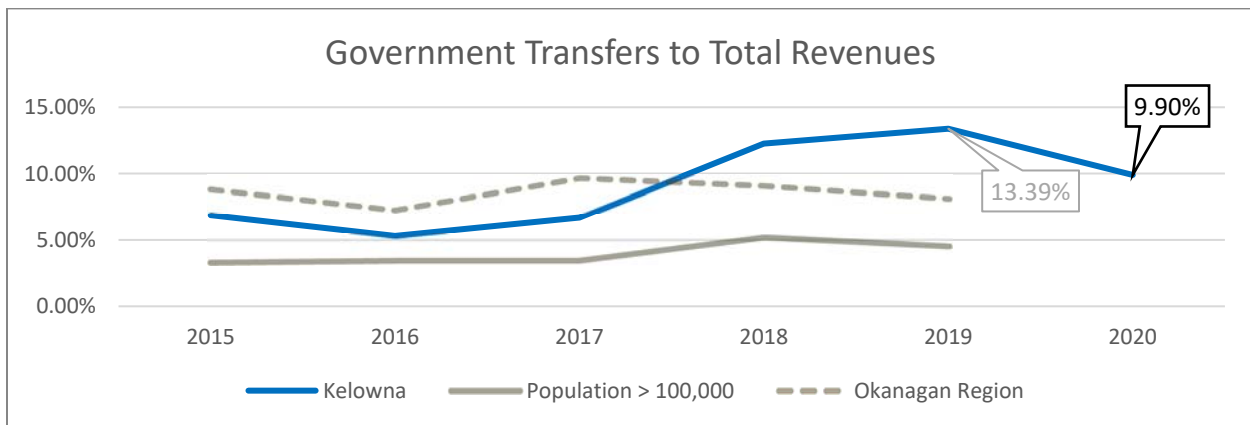


**Vulnerability Ratio** – Measures the degree to which a Municipality is dependent on sources of funding outside its control or influence or is exposed to risks that could affect its ability to meet existing financial obligations.

Indicator 11: Government Transfers to Total Revenues

This ratio measures the dependence of the City on other levels of government for sources of funding. It is important to note that a balance needs to be achieved as a reduced dependence on government transfers may reduce vulnerability but it could also impair sustainability if the City's tax base has to replace the revenues lost from a reduction in transfer payments. The City of Kelowna has a Grant strategy in place to create this balance.

Some government transfers are relatively consistent from year to year however, the City occasionally receives one-time funding typically for infrastructure projects which will cause this ratio to fluctuate. The decrease in this ratio from 2019 to 2020 was the result of funding in 2019 related to the South East Kelowna Irrigation District (SEKID) project that had concluded by 2020.



**Conclusion:**

The City's strong overall financial health at the beginning of the year was challenged in some areas by the COVID-19 pandemic. The area to be cognizant of is the City's ratios in relation to Municipalities of similar size. It is important to note and consider when making decisions around this information that we are not comparing apples to apples in services and products however, it warrants investigation if the City shows significant differences.

The sustainability ratios show that the City has remained stable in meeting current financial obligations without increasing the debt or tax burden in a challenging year.

Decreasing revenues in 2020 challenged the City's flexibility position, but currently remain at acceptable levels. Should the trend of decreasing revenues continue, or if recovery is slow it may impact the City's ability to take on additional levels of debt, or respond to future infrastructure replacement demands. When making determinations on funding the City should take this into consideration along with the financial strategies that are in place.

The City of Kelowna's vulnerability regarding its dependence on sources of funding outside of its control is currently being managed through its Grant Strategy and has shown to be within an acceptable range.

The City of Kelowna's indicators show fluctuation in response to uniquely challenging times, but remain in a good position to continue to build a vibrant community.

# *Financial Health Indicators*

# Introduction

- ▶ Purpose of Financial Health Indicators
- ▶ Ratios measure Sustainability, Flexibility and Vulnerability
- ▶ City financial information is compared to Municipalities greater than 100,000 population and those in the Okanagan Region



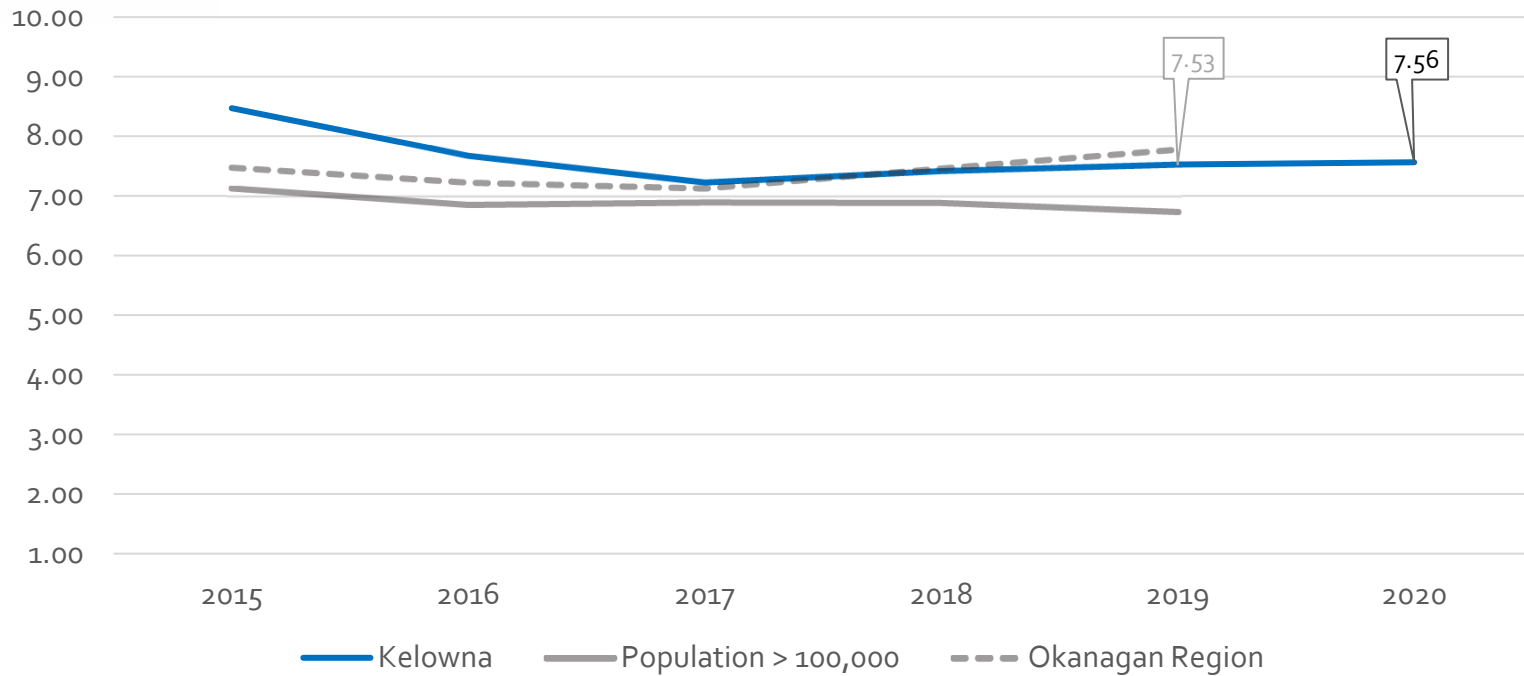
# Sustainability Ratios

- ▶ Measure the degree to which a Municipality can maintain its existing financial obligations without increasing the debt or tax burden relative to the economy in which it operates



# Sustainability

## Total Assets to Liabilities

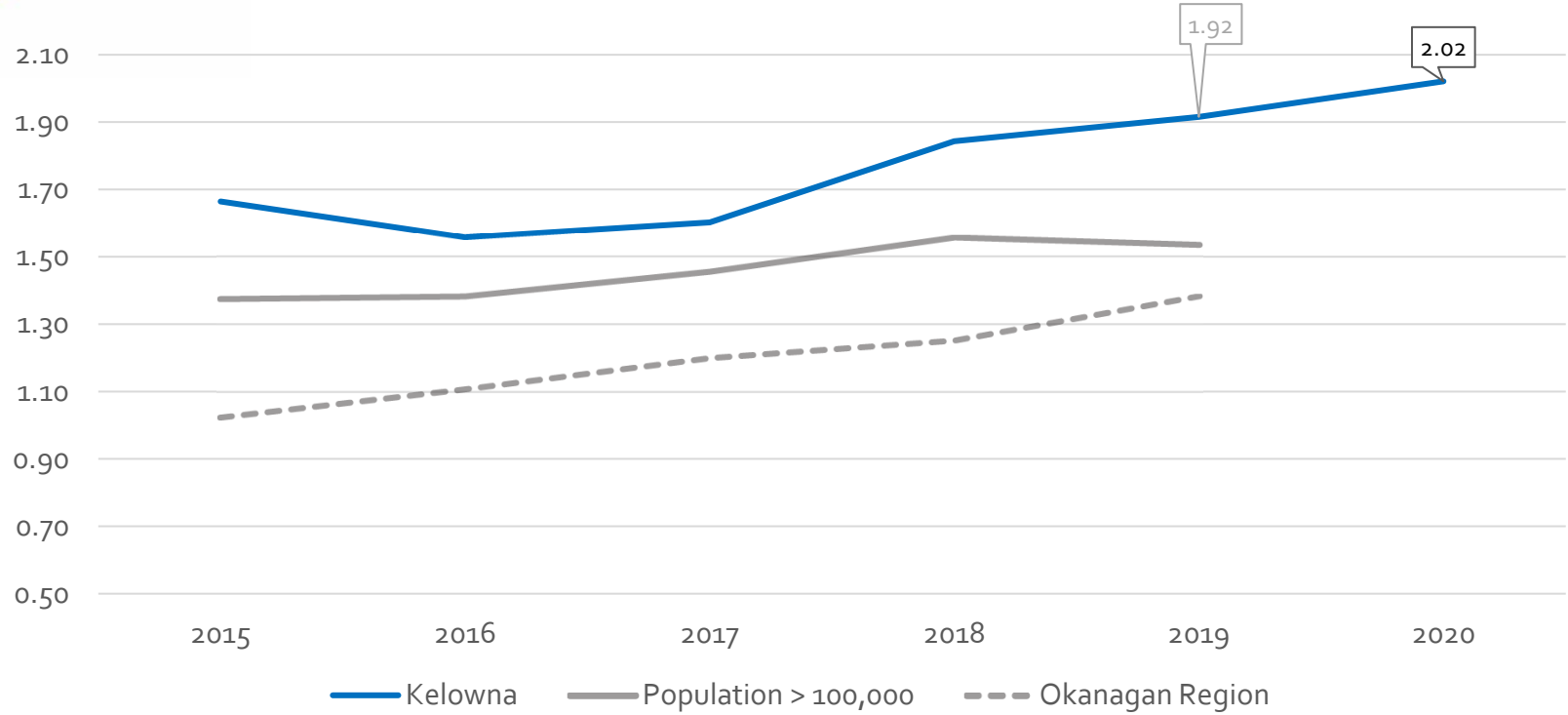


City of Kelowna



# Sustainability

## Financial Assets to Liabilities

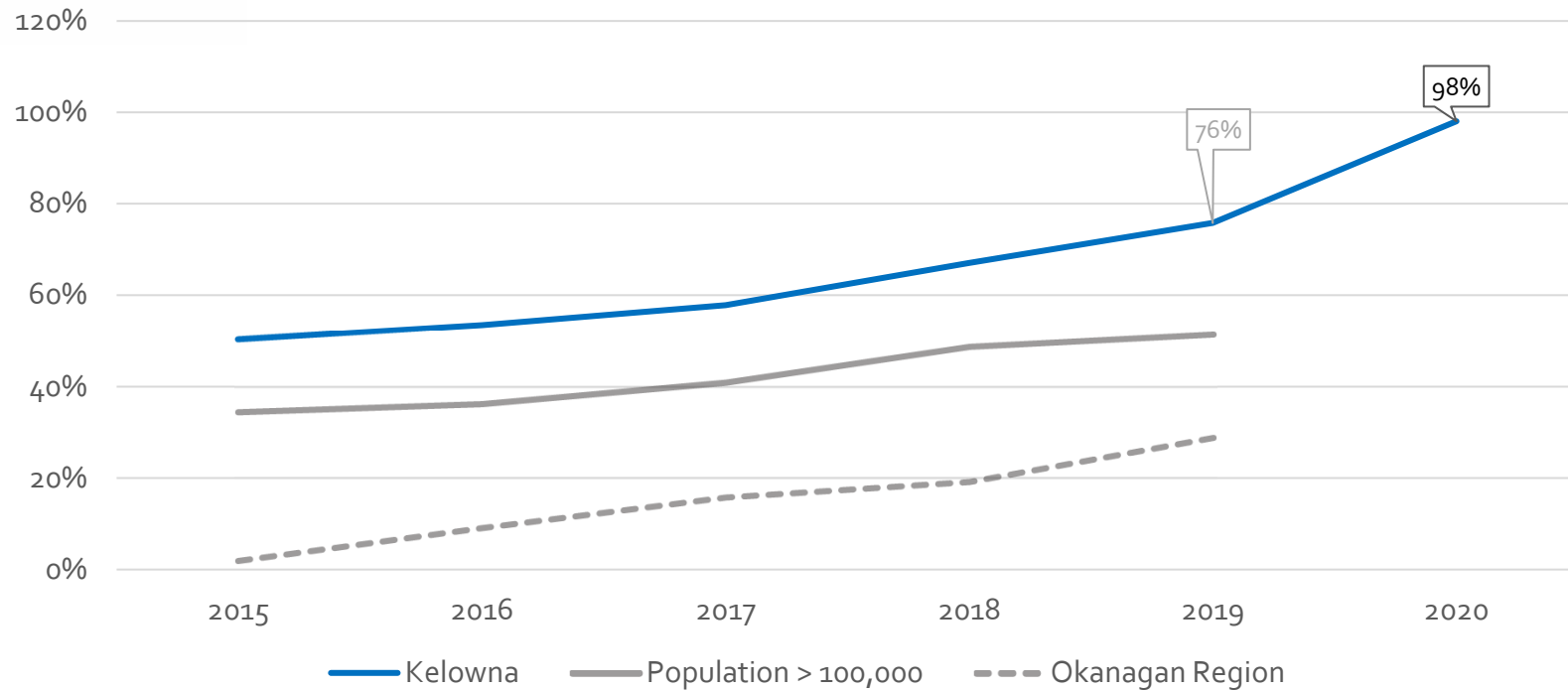


City of Kelowna



# Sustainability

## Net Financial Assets to Total Revenue

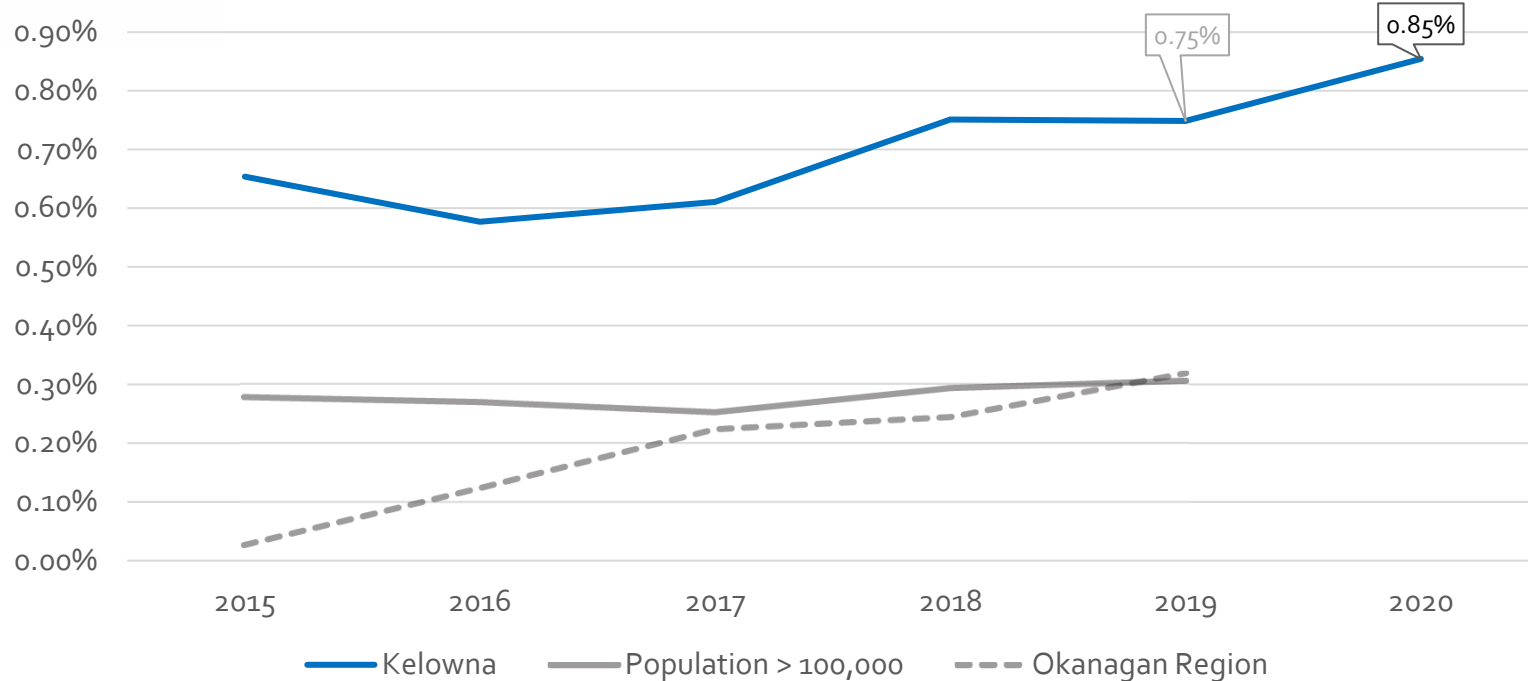


City of Kelowna



# Sustainability

## Net Financial Assets to Tax Assessment

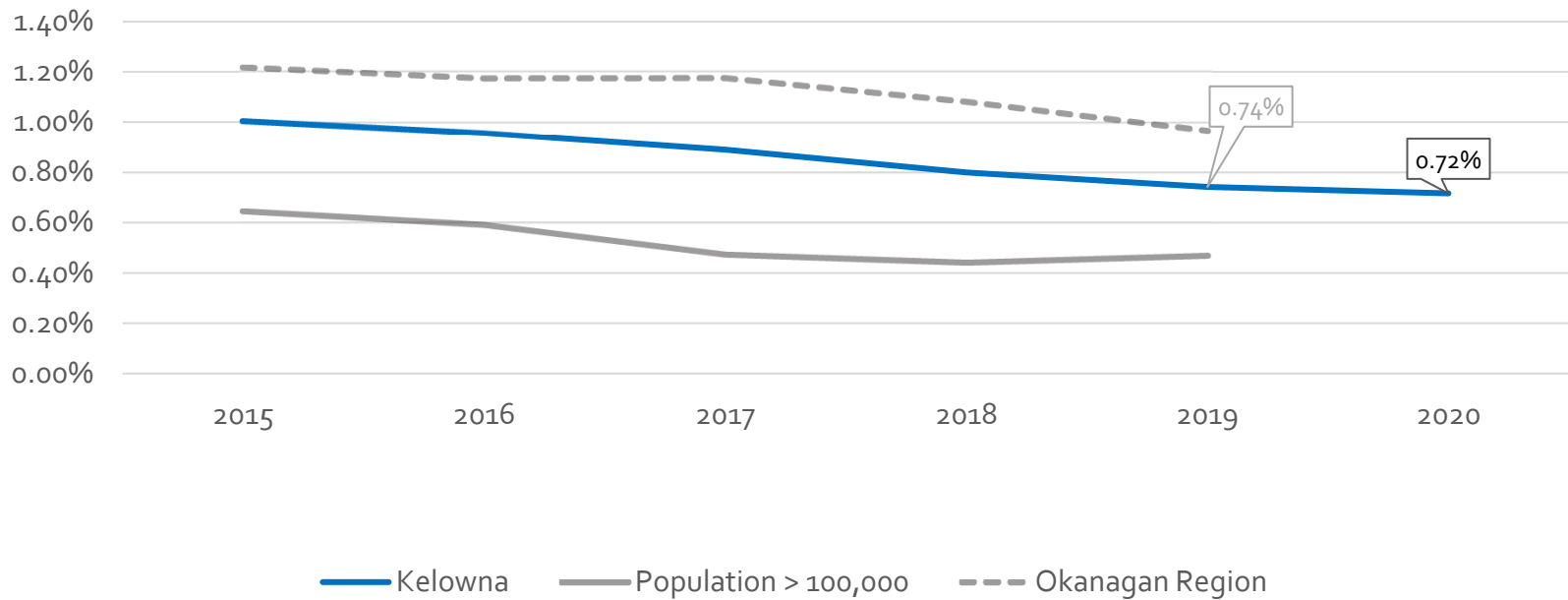


City of Kelowna



# Sustainability

## Total Expense to Tax Assessment

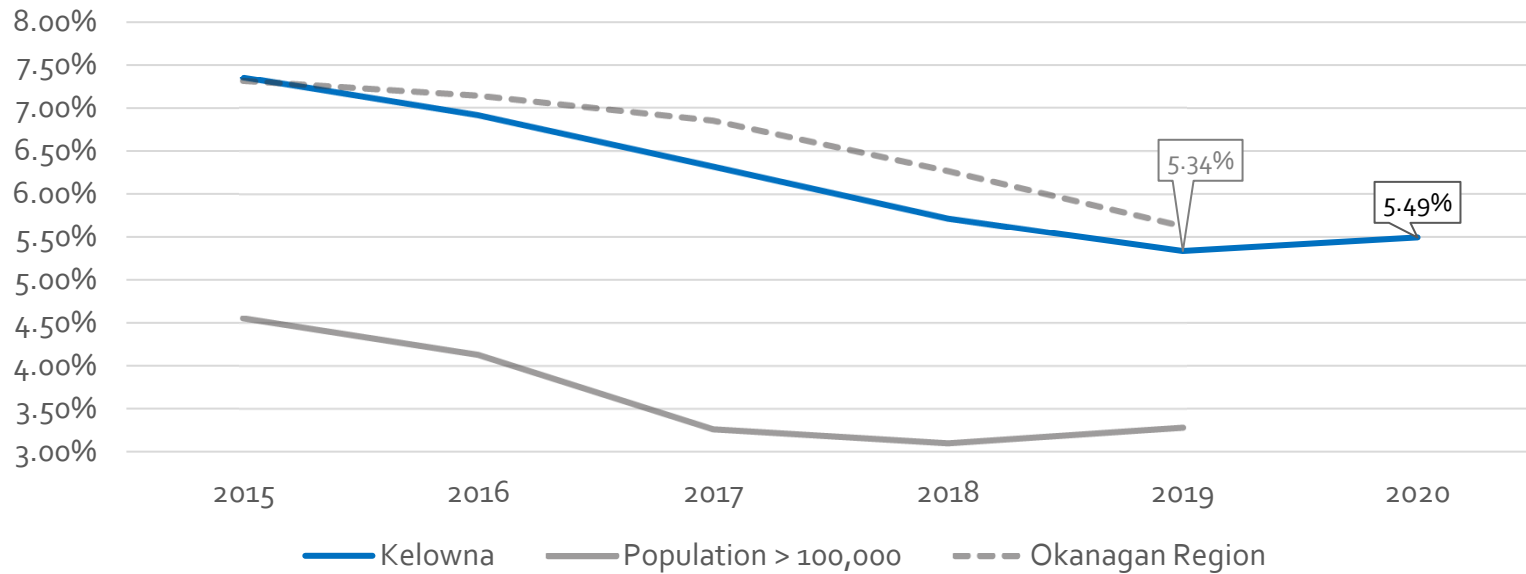


City of Kelowna



# Sustainability

## Accumulated Surplus/Deficit to Property Assessment



City of Kelowna

# Flexibility Ratios

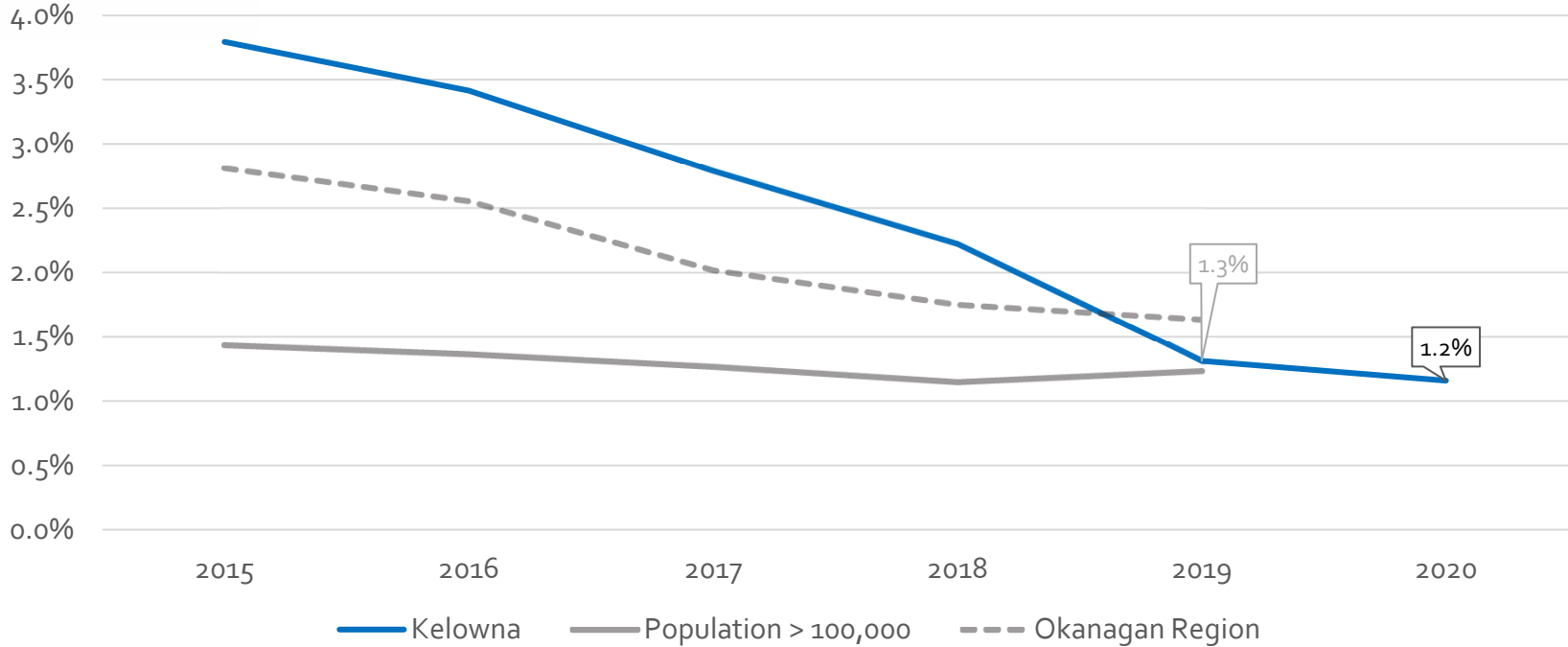
- ▶ Measures the degree to which a Municipality can change its debt or tax burden on the economy in which it operates to meet its existing financial obligations





# Flexibility

## Debt Service to Revenues

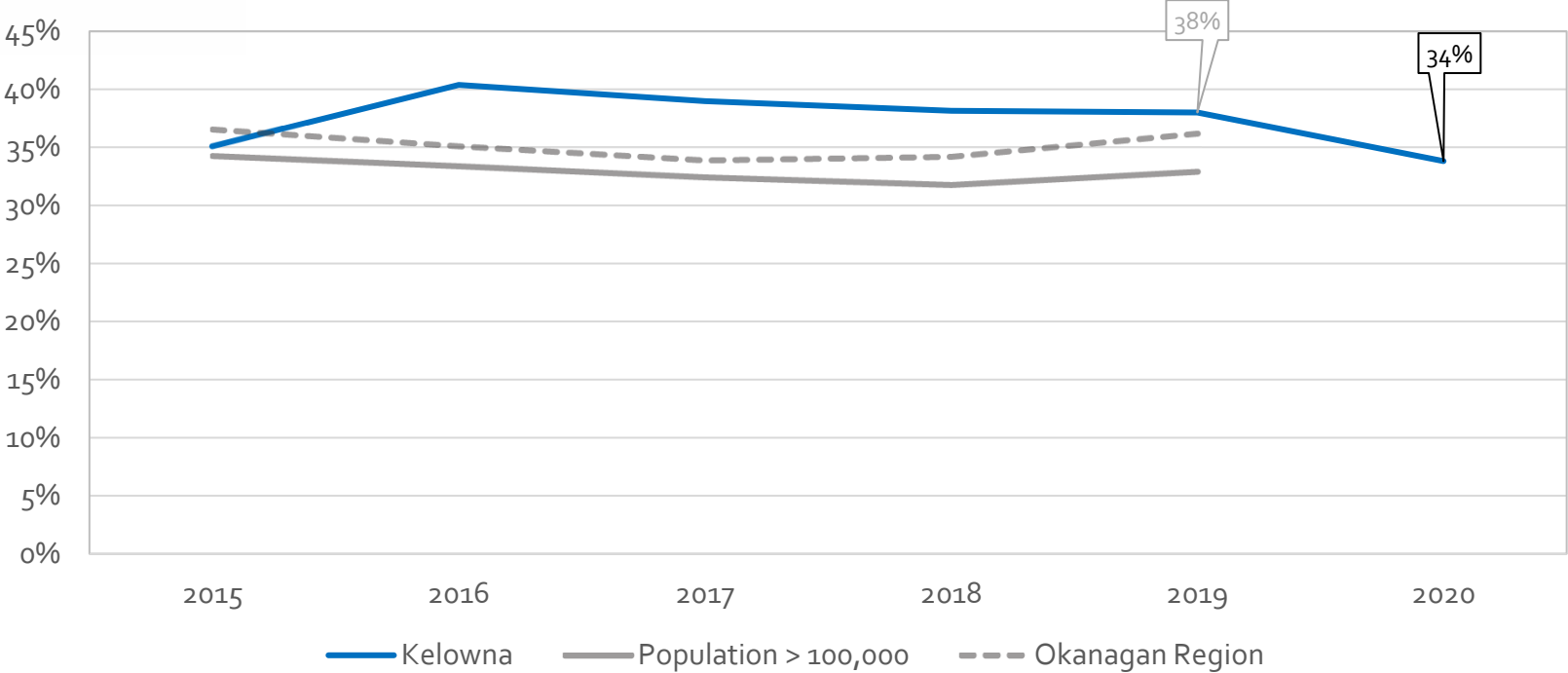


City of Kelowna



# Flexibility

## Own Source Revenue to Total Revenue

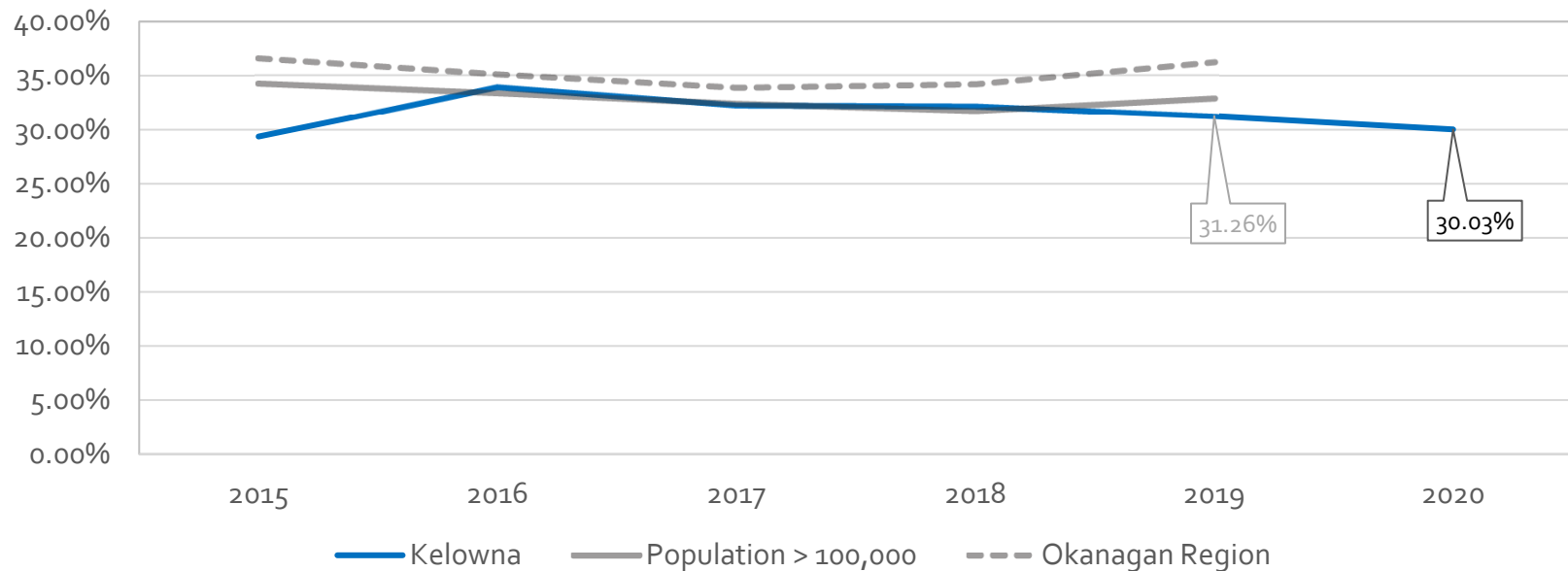


City of Kelowna



# Flexibility

## Own Source Revenue to Total Revenue (no Airport)

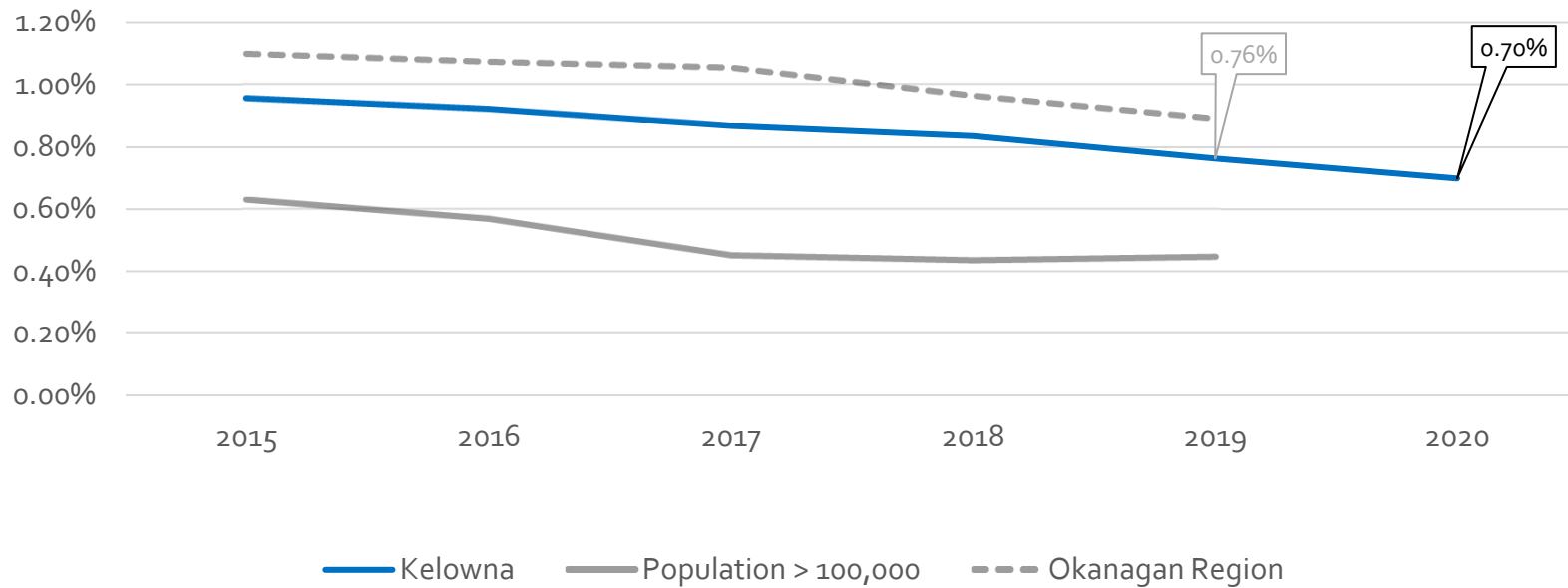


City of Kelowna



# Flexibility

## Own Source Revenue and Property Tax Revenue to Tax Assessment

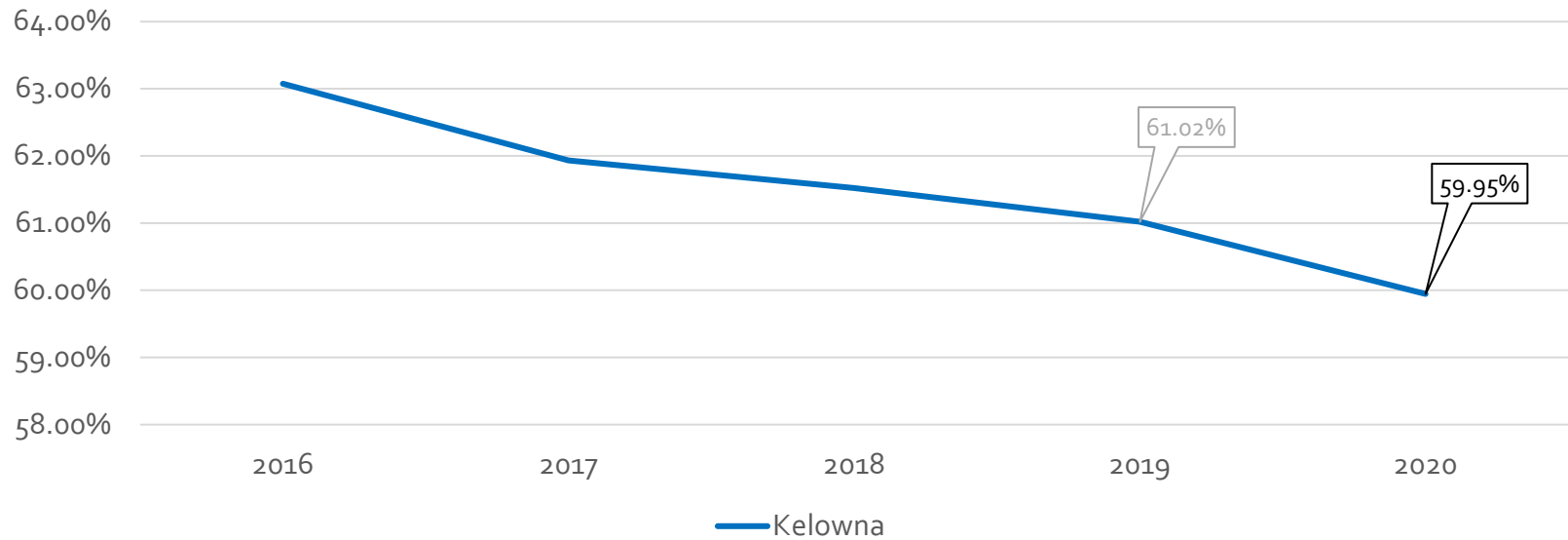


City of Kelowna



# Flexibility

## Net Book Value to Cost of Tangible Capital Assets



City of Kelowna

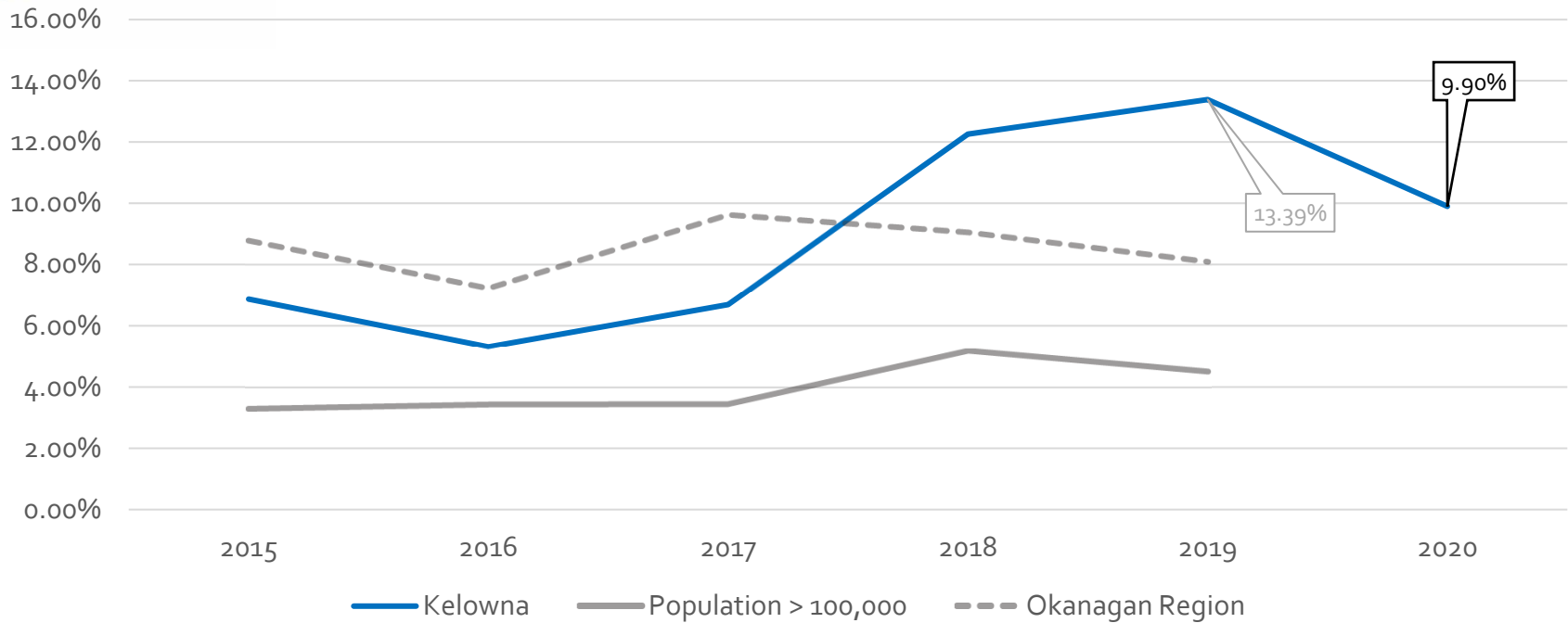
# Vulnerability Ratios

- ▶ Measures the degree to which a Municipality is dependent on sources of funding outside its control or influence or is exposed to risks that could affect its ability to meet existing financial obligations



# Vulnerability

## Government Transfers to Total Revenues



City of Kelowna

# Financial Health Indicators - Conclusion

- ▶ Overall Financial Health of the City is strong
- ▶ Sustainability ratios show the City can meet current and future financial obligations
- ▶ Flexibility ratios show that the City is positioned to be able to take on new opportunities without creating financial burden
- ▶ Strong sustainability and flexibility ratios will help the City navigate and recover from the COVID-19 pandemic
- ▶ The City is managing its vulnerability in regard to dependence on sources of funding outside its control



# Memo



**Date:** April 29, 2021  
**File:** 0605-01  
**To:** Audit Committee  
**From:** Divisional Director, Financial Services  
**Subject:** Audit Committee Review of 2020 Surplus and Reserves  
Report Prepared by: Financial Planning Manager

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The following information provides further details relative to the fiscal year 2020 level of surplus for each of the City's funds as well as both statutory and general reserves. Further details are in the next section titled "2020 Revenue - Expenditure Analysis".

## 2020 Operating Surplus

### 1. Summary of General Fund

- An unappropriated surplus of \$9.0M has been generated from current year's operations.
- The fund's accumulated surplus will be \$4.8M at the end of 2020, after distribution of the surplus to reserves. After the distribution, the balance will represent approximately 3% of the 2020 taxation demand.

Total surplus appropriated to reserve is \$8.5M as detailed in the City Manager's April 29, 2021 memorandum titled "2020 Surplus from Operations". The major contributing factors to the level of surplus from general fund operations, reported by division, were:

### GENERAL REVENUES

#### General Revenues over budget by (\$171k)

- **Real Property Tax** revenue ended the year **175k over budget** due to mid-year changes in property assessment values which resulted in increased taxation.
- **General License** ended the year **\$31k over budget** as a result of a final payment relating to the commercial vehicle license program.
- **Franchise Revenue** ended the year **143k over budget** as the Fortis BC Gas franchise fee payment fluctuates annually.
- **Interest & Penalties** revenue ended the year **\$557k under budget** primarily due to increased interest revenue partially offset by no Fortis share sales during the year.
- **Provincial revenue** was **(\$374k) over budget** mainly due to higher than expected traffic fine sharing revenue.

## CITY ADMINISTRATION DIVISION

### City Manager, Council, and Mayor over budget \$6k

- **City Administration** ended the year **over budget \$6k** due to fringe benefit differences, Facility rentals and membership dues. These were partially offset with reduced purchase services and contingency expenses.

## CITY CLERK

### City Clerk, Legislative Office and Records & Information over budget \$29k

- **Legislative Services** ended the year **under budget (\$90k)** mainly due to staff vacancies and annual fluctuations in costs for advertising and contract services.
- **City Clerk and Records & Information** ended the year **over budget \$120k** due to legal expenses.

## INFRASTRUCTURE DIVISION

### Infrastructure, Infrastructure Delivery, Infrastructure Engineering, and Integrated Transportation under budget (\$3.5M)

- **Infrastructure** ended the year **under budget (\$20k)** due to reduced expenses as a result of COVID-19.
- **Infrastructure Delivery** ended the year **under budget (\$96k)** mainly due to more staff time charged to project work and third-party work orders.
- **Infrastructure Engineering** ended the year **under budget (\$170k)** mainly due to staff vacancies, time billed to capital projects. Expenses were under budget due to project delays due to the pandemic.
- **Integrated Transportation** ended the year **under budget (\$3.2M)** mainly due to the COVID-19 Safe Restarts Grant. In addition, BC Transit provided a lease payment holiday. This was partially offset by Salaries & Wages being over budget due to less capital projects.

## PLANNING & DEVELOPMENT DIVISION

### Planning & Development Services, Development Planning, Business License, Development Services, and Policy & Planning under budget (\$824k)

- **Planning & Development Services** ended the year **over budget \$15k** due to fringe benefit differences.
- **Development Planning** ended the year **under budget (\$241k)** due staff vacancies and higher than anticipated revenues for cannabis applications.
- **Business License** ended the year **over budget \$17k** mainly due to salary overages. This was partially offset by lower than anticipated short term rental host compliance fees due to COVID-19.
- **Development Services** ended the year **under budget (\$493k)** mainly due to staff vacancies and employees working on the planning and permitting major systems project. This was partially offset by decreased permit and inspections revenue due to the pandemic.
- **Policy & Planning** ended the year **under budget (\$122k)** due to staff vacancies.

## PARTNERSHIP & INVESTMENTS

### Partnerships & Investments, Business & Entrepreneurial Development, Parks & Building Planning, Real Estate & Real Estate Services over budget \$111k

- **Partnerships & Investments** ended the year **over budget \$19k** due to fringe benefit differences.
- **Business & Entrepreneurial Development** ended the year **over budget \$35k** mainly due to advertising contracts being discontinued in 2020. This was partially offset by lower Salaries & Wages.
- **Parks & Buildings Planning** ended the year **over budget \$86k** due to staff time working on operating projects compared to capital projects.
- **Real Estate & Real Estate Services** ended the year **under budget (\$37k)** due to reduced professional and consulting expenses. This was partially offset by staff time working on operating projects compared to capital projects.

## ACTIVE LIVING & CULTURE DIVISION

### Active Living & Culture, Community & Neighborhood Services, Cultural Services, Recreation & Business Services and Sport & Event Services under budget (\$1.8M)

- **Active Living & Culture** ended the year **under budget (\$35k)** due to reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Community & Neighborhood Services** ended the year **under budget (\$560k)** due to reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Cultural Services** ended the year **under budget (\$60k)** due to reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Administration & Business Services** ended the year **under budget (\$505k)** due to staff vacancies and reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.
- **Sports & Event Services** ended the year **under budget (658k)** due to staff vacancies and reduced activities (including facility and programs/services closure and gradual re-opening) as a result of public health orders relating to the pandemic.

## CIVIC OPERATIONS DIVISION

### Civic Operations, Civic Operations Finance & Administration, Building Services, Fleet Services, Parks Services, Public Works, and Utility Services over budget \$608k

- **Civic Operations Finance & Administration** ended the year **under budget (\$117k)** mainly due to salary vacancies.
- **Building Services** ended the year **under budget (\$91k)** mainly due to reduced demand for recreation buildings as activities were reduced as a result of public health orders relating to COVID-19.

- **Fleet Services** ended the year **under budget (\$27k)** due to lower purchase services for Carshare usage.
- **Parks Services** ended the year **under budget (\$636k)** mainly due to less demand on parks in 2020 as a result of public health authority orders relating to COVID-19 as well as staff vacancies.
- **Public Works** ended the year **over budget \$1.4M** mainly due to long winter with higher than average snow which resulted in increased costs for removal and spring cleanup. In addition, a new Flaggers contract resulted in increased costs.
- **Utility Services** ended the year **over budget \$71k** due to salary and wages related to flood control response and remedial work in the spring freshet.

## FINANCIAL SERVICES DIVISION

### Financial Services, Corporate Finance, Financial Planning, Controller, Corporate Financial Support, and Purchasing under budget (\$532K)

- **Financial Services** ended the year **under budget (\$86k)** due to staff vacancies and reduced audit expenses and related project work delivered by consultants.
- **Corporate Finance** ended the year **under budget (\$48k)** due to staff vacancies.
- **Financial Planning** ended the year **under budget (\$31k)** due to staff vacancies.
- **Controller** ended the year **under budget (\$163k)** due to staff vacancies and projects being deferred due to the pandemic.
- **Corporate Financial Support** ended the year **under budget (\$170k)** due to staff vacancies.
- **Purchasing** ended the year **under budget (\$34k)** due to staff vacancies.

### Debt & Other over budget \$2.1M

- **Debt & Other** ended the year **over budget \$2.1M** mainly due to the salary vacancy factor that was put in place to offset amounts under budget in other cost centers throughout the organization. In addition, there was a budgeted amount relating to the employer health tax that was not utilized.

## HUMAN RESOURCES & COMMUNITY SAFETY DIVISION

### Human Resources, Corporate HR Services, Community HR Services, HR Programs & Systems, Compensation & Benefits, and Risk Management under budget (\$850k)

- **Human Resources** ended the year **under budget (\$27k)** mainly due to reduced legal expenses as these fluctuate from year to year.
- **Community HR Services** ended the year **under budget by (\$58k)** mainly due to a hiring freeze due to COVID-19.
- **HR Programs & Systems** ended the year **under budget by (\$130k)** mainly due to unspent training budget as well as expenses relating to management systems which was not finalized in 2020.
- **Risk Management** ended the year **under budget by (\$632k)** mainly due to unbudgeted recoveries from third-parties and insurance claims which fluctuate year to year.

**Community Safety, Bylaw Services, Police Services, Police Client Services, Police Quality Assurance, Crime Prevention, and Police Information Management under budget (\$3.6M)**

- **Community Safety** ended the year **over budget \$39k** due to expenses related to the overnight shelter.
- **Police Services** ended the year **under budget (\$3M)** mainly due to Regular Member position vacancies and the budget including a 2.5% increase for ongoing contract negotiations. This was partially offset by decreased Casino and external customer revenue due to the pandemic restrictions.
- **Police Client Services** ended the year **under budget (\$221k)** due to staff vacancies.
- **Police Quality Assurance** ended the year **under budget (\$27k)** due to staff vacancies.
- **Police Facility Operations** ended the year **under budget (\$30k)** mainly due to staff vacancies.
- **Crime Prevention** ended the year **under budget (\$60k)** due to timing of staff hiring and volunteer programs put on hold or reduced due to the pandemic.
- **Police Information Management** ended the year **under budget (\$264k)** due to staff vacancies.

**Fire Department, Fire Operations, Fire Communications & Emergency Management, EOC Operations & Hydrants, and Fire Admin, Training & Fire Prevention under budget (\$377k)**

- **Fire Operations** ended the year **under budget (\$436k)** due to salary & wage shift reductions and reduced medical calls during April to mid-September.
- **Fire Admin, Training & Fire Prevention** ended the year **over budget \$61k** due to the Lake Country Fire contract being overbudget. This was partially offset by reduced training and staff on Worksafe leave.

**CORPORATE STRATEGIC SERVICES DIVISION**

**Corporate Strategic Services, Information Services, Corporate Communications, Community Communications, Community Engagement, and Corporate Strategy & Performance, under budget (\$72k)**

- **Corporate Strategic Services** ended the year **under budget (\$1k)** due to multiple accounts with small variances
- **Information Services** ended the year **over budget \$3k** due to multiple accounts with small variances
- **Corporate Communications** ended the year **over budget \$10k** due to multiple accounts with small variances
- **Community Communications** ended the year **over budget \$38k** due to a new position being filled earlier than budgeted for.
- **Community Engagement** ended the year **under budget (\$134k)** due to staff vacancies and wages being attributed to projects.

## 2. Summary of Utility Funds

### AIRPORT FUND

The 2020 Airport deficit before appropriations to reserve was \$1.4M. The accumulated surplus is \$2.4M. During 2020, the Airport earned revenues of \$20.5M, which was \$25.9M less than anticipated at the beginning of 2020. The COVID-19 pandemic had a significant, negative impact on the travel industry and resulted in a 64% decrease in passenger numbers at the Airport compared to 2019. This resulted in substantial decreases in revenues, as reflected in the following reductions when compared to budget:

- Airport improvement fees \$16.5M
- Parking revenue \$4.8M
- Landing fees \$2.3M
- Terminal fees \$2.1M
- Car rental concession revenues \$0.9M

During 2020, the Airport had operating expenditures of \$14.2M excluding amortization, which was \$4.4M less than budget. Expenditures came in under budget due to the implementation of substantial measures to help reduce costs and mitigate the significant, negative impact of COVID-19. The largest reductions compared to budget were:

- Salaries and wages \$ 1.2M
- Professional & consulting services \$1.0M
- Facility maintenance \$0.8M
- Fuel costs \$0.3M

### WASTEWATER UTILITY FUND

The Wastewater Utility surplus from 2020 operations was \$7.1M which was \$3.2M more than the budgeted surplus of \$3.9M. The annual surplus was primarily due to the following items:

- Lower salaries and wages of \$810k due to staff leave & vacancies,
- Interest revenue of \$700k higher than what was budgeted,
- Lower contract and purchase services of \$375k,
- Capital projects came in under budget for Guy Street (Bay Avenue lift station) replacement project was cancelled \$1,375k and due to the Tolko Site being redeveloped at unknown future date

The accumulated surplus for the Wastewater Utility is \$59.0M. A portion of the accumulated surplus will be required to carry the utility through a period of higher capital infrastructure replacement over the next several years, including new mains, lift stations and facility renewal. The accumulated surplus acts as an equalization fund to ensure utility rate increases are kept at acceptable levels and as backing for debt repayment under the DCC Wastewater program.

### WATER UTILITY FUND

The Water Utility surplus from 2020 operations was \$1.9M which was \$646k higher than the budgeted surplus of \$1.3M. The annual surplus was primarily due to the following items:

- Lower salaries and wages of \$649k due to vacancies and re-deployment of staff,
- Lower allocations of \$499k,
- Capital projects were completed \$109k under budget due to the cancellation of the Bellevue Creek Water Main Crossing.

The favorable items above were partially offset by a \$611k decrease in commercial water sales due to lower demand attributed to COVID-19 impacts on businesses.

**The accumulated surplus for the Water Utility is \$9.3M.** A portion of the accumulated surplus will be required to support capital renewal primarily for new water meters over the next five years. In addition to using a portion of the accumulated surplus for capital renewal, rate increases of 6% or more will be required in order to ensure the Utility does not move into a deficit position.

### 3. Reserve Funds – General and Statutory

The City of Kelowna’s 2020 year-end general and statutory reserve position on a comparative basis to 2019 is as follows in 000’s of dollars:

	<u>2020</u>	<u>2019</u>
General Reserves for Future Expenditures	\$107,426	\$105,589
Legacy Reserves	101,983	97,949
Statutory Reserves for Future Expenditures	93,828	88,356
Utility Reserves for Future Expenditures	<u>60,112</u>	<u>63,340</u>
Total Reserves	\$363,349	\$355,234
Less Multi-Purpose Commitment	<u>6,867</u>	<u>6,699</u>
Available Reserves	<u>\$356,482</u>	<u>\$348,535</u>

The increase in General and Statutory Reserves is primarily due to deferral of capital projects from 2020 into 2021, which results in project funding being carried forward in a Reserve.

The Legacy Reserves increased by \$4.0M primarily due to reinvestment of Fortis share dividends.

### 4. Utility Reserves for Future Expenditures - Decrease of \$3.2M

#### Airport Reserves

Due to COVID-19, there was a significant negative impact on the Airport’s business which resulted in significant decreases in revenue. Operating and capital expenditures were reduced to help mitigate the negative financial impact. The net result to the overall Airport reserves was a decrease of \$2.0M, to bring total reserves down to \$28.4M. The Airport reserve balances are committed for future operating expenditures and capital projects identified as a part of the airport long-term capital plan.

#### Water Utility

The Water Utility has a reserve for future expenditure balance of \$20.8M. This is a decrease of \$1.5M which can be attributed to an overall decrease of \$2.6M spent on capital Water Quality Enhancement projects with an increase to the SEKID water levy of \$800k and an increase in unspent budget funds (carryover projects) of \$800K. The unspent funds are anticipated to be complete in 2021.

## Wastewater Utility

The Wastewater Utility has a reserve for future expenditure balance of \$10.9M of which \$7.6M represents unspent budget funds which are 2020 projects to be completed in 2021. The total reserve for future expenditure balance increased \$270K from 2019 due to carryover projects, which are anticipated to be completed in 2021.

### **5. Deferred Development Cost Charges**

The Development Cost Charge balance has increased by \$4.7M. Development Cost Charge revenues totaled \$19.0M while expenditures were \$14.4M. The consolidated closing deferred DCC balance was \$83.7M.

### **6. Budget Amendments**

As part of regular operations the Financial Services Division prepares an annual report detailing expenditures that have exceeded approved budget. This report recommending approval of an amendment along with details reflecting the necessity for the amendments was forwarded to Council at the April 19, 2021 regular meeting.

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G. Davidson, CPA, CMA

cc: City Manager  
Grant Thornton – Tyler Neels



# Memo



Date: April 29, 2021  
Rim No. 0220-20  
To: Audit Committee  
From: City Manager  
Subject: 2020 Surplus from Operations  
Report Prepared by: Divisional Director Financial Services

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## Recommendation:

That the 2020 General Fund Surplus of \$8,955,028 generated from operating and capital programs be distributed as per the City Manager's memo of April 29, 2021.

## Purpose:

To provide the Audit Committee with a recommendation for the allocation of the 2020 General Fund surplus for contribution to reserve and accumulated surplus.

## Background:

The 2020 year-end surplus is \$8,955,028. This is the total surplus that was generated from all General Fund operations in 2020 with the major sources being: the reduction of \$5.1M to the capital program as part of the 2020 Final Budget to offset the anticipated reductions in transit and other programming revenue; police services department RCMP officer vacancies; and unexpected provincial grants received to assist with the financial impacts of the COVID 19 pandemic.

The following allocation of the 2020 surplus is recommended in order to supplement the City's capital program that was reduced in 2020 to help mitigate financial impacts of the COVID 19 pandemic; leverage grant funding awarded to the City; minimize risk where unanticipated circumstances may arise during the year; maintain acceptable average reserve levels; support Council priorities.

Community Safety	\$ 500,000	Reserve for community safety emergent and one-time funding. Potential needs: legal opinions; operational funding related to emergent encampments; protest and/or community unrest; and engagement.
Slope Stability	\$ 750,000	Kelowna has hillside topography and has experienced

		Increasing movement over the last few years increasing the need to have funding in place for emergent and one-time events.
Climate Action	\$ 500,000	To move forward climate related initiatives that are necessary to support this Council priority.
Major Recreation	\$ 2,000,000	To help fund, and reduce potential long term borrowing for the planned replacement of the Parkinson Recreation Facility.
Building Repair	\$ 950,000	The City's civic buildings are aging and a facility assessment currently underway has indicated a significant shortfall in the funding necessary to extend the service life of these buildings and/or eliminate emergent risks.
Major Systems	\$ 500,000	An outdated legacy system is planned for replacement with a modern financial budgeting, forecasting and data analytics software that will better service the corporation and our citizens.
Future Capital Projects	\$ 3,300,000	As part of the 2020 Final Budget, the capital program was reduced significantly to mitigate potential financial impacts of the COVID 19 pandemic. This funding will be used to restore funding for some of these projects and to provide for funding to be used to leverage grants awarded to the City.

The remaining balance of \$455,028 will flow to Accumulated Surplus. The Accumulated Surplus balance provides for a surplus level of approximately \$4.8M that is approximately 3% of the 2020 taxation requirement. This resulting accumulated surplus balance of \$4.8M meets acceptable risk level best practices that are in place to help mitigate extraordinary events should they occur.

The proposed year-end contributions to reserve and accumulated surplus adhere to the Principles & Strategies for Financial Strength & Stability as adopted by Council.

The Divisional Director, Financial Services will be pleased to discuss any of the information provided in this memorandum during the Audit Committee Meeting on April 29, 2021. If the Audit Committee agrees with this recommendation, it will then be forwarded to Council for their approval.

Submitted by:

A handwritten signature in black ink, appearing to read 'Doug Gilchrist', with a long horizontal flourish extending to the right.

Doug Gilchrist  
City Manager

cc: Controller,  
Corporate Finance Manager,  
Financial Planning Manager

# Report to Council



**Date:** May 10, 2021  
**File:** 0250-20  
**To:** City Manager  
**From:** Chair, Audit Committee  
**Subject:** Financial Statements for the Year Ending December 31, 2020  
Report Prepared by: Divisional Director, Financial Services

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**Recommendation:**

THAT Council receives, for information, the Report from the Audit Committee dated May 10, 2021 with respect to the Consolidated Financial Statements and Auditor’s Report for the City of Kelowna for the year ending December 31, 2020;

AND THAT Council approves the appropriation of \$8,955,028 of surplus generated from all general fund operations in 2020 to reserves and accumulated surplus as detailed in the Report from the Audit Committee dated May 10, 2021;

AND FURTHER 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 present the Financial Statements to Council for acceptance per the legislative requirement, to provide Council with a recommendation on the appropriation of \$8,955,028 of surplus to general reserves and accumulated surplus and to seek approval to include the Financial Statements in the annual report.

**Background:**

A detailed review of draft City of Kelowna Financial Statements for the year ending December 31, 2020 was undertaken on April 29, 2021 by the Audit Committee, the City of Kelowna Auditor, Grant Thornton LLP, and Financial Services staff.

City Administration has recommended the appropriation to reserves and accumulated surplus of 2020 surplus generated from all general fund operations, in the amount of \$8,955,028 in addition to those amounts that are normally appropriated through the budget process. The Audit Committee is in agreement with the reasons provided for the appropriation. This results in an unappropriated surplus for 2020 of \$455,028 and an accumulated surplus balance of \$4.8 million.

The recommended appropriations to reserves are:

Community Safety	\$ 500,000
Slope Stability	750,000
Climate Action	500,000
Major Recreation	2,000,000
Building Repair	950,000
Major Systems	500,000
Future Capital Projects	3,300,000
Accumulated Surplus	<u>455,028</u>
	<u>\$8,995,028</u>

**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.

**Financial/Budgetary Considerations:**

The financial impact is that a total of \$8,500,000 will be transferred from surplus to reserves and \$455,028 will fall to accumulated surplus.

**Considerations not applicable to this report:**

Internal Circulation:

Legal/Statutory Procedural Requirements:

Existing Policy:

Personnel Implications:

External Agency/Public Comments:

Communications Comments:

Alternate Recommendation:

Submitted by:

Mayor Basran, Chair, Audit Committee

cc: Councillor G. Given – Audit Committee  
Councillor L. Stack – Audit Committee  
Divisional Director, Financial Services  
Controller  
Financial Planning Manager  
Corporate Finance Manager  
Grant Thornton LLP – Auditor - Mr. Tyler Neels, CPA, CA