

City of Kelowna
Open Audit Committee Meeting
AGENDA



Thursday, April 28, 2022
1:00 pm
Council Chamber
City Hall, 1435 Water Street

Pages

1. **Call to Order - Chair**
2. **Confirmation of Minutes - Chair** 3 - 6
April 29, 2021
3. **Financial Services Opening Remarks - Genelle**
4. **2021 Airport Financial Statements**
 - 4.1. **Auditor's Report and Airport Financial Statement - Tyler** 7 - 24
 - 4.2. **Memorandum - Review of Airport Financial Statements - Shayne** 25 - 33
5. **2021 Consolidated Financial Statements**
 - 5.1. **Auditor's Report and Consolidated Financial Statements - Tyler** 34 - 41
 - 5.2. **Memorandum - Review of Consolidated Financial Statements - Shelly** 42 - 50
 - 5.3. **Notes to the Financial Statements and Supporting Schedules - Vishaal** 51 - 76
 - 5.4. **Financial Health Indicators - Shelly** 77 - 103
6. **Resolution Closing the Meeting to the Public - Chair**

THAT this meeting be closed to the public pursuant to Section 90(1) (l) of the Community Charter for the Audit Committee to deal with matters relating to the following:

 - Annual Report
7. **Adjourn to Closed Session - Chair**
8. **Reconvene to Open Session**

9.	2021 Financial Statements	
9.1.	Memorandum - Audit Committee Review of 2021 Surplus and Reserves - Shelly	104 - 113
9.2.	Memorandum - 2021 Surplus from Operations - Genelle	114 - 116
10.	Consideration of Financial Statements and Surplus Allocation - Chair	
10.1.	Draft Report to Council - Audit Committee Review of 2021 Financial Statements and Recommendation	117 - 118
10.2.	Adoption of Financial Statements, Surplus Allocation Recommendation and Report to Council	
11.	Termination	



City of Kelowna Audit Committee Open Meeting Minutes

Date:	April 29, 2021
Location:	Knox Mountain Meeting Room 4A City Hall, 1435 Water Street
Members Present	Mayor Colin Basran, Councillor Gail Given
Members participating Remotely	Councillor Luke Stack
Staff Present	City Manager, Doug Gilchrist; City Clerk, Stephen Fleming; Divisional Director, Financial Services, Genelle Davidson; Corporate Finance Manager, Shelly Little; Senior Airport Finance & Corporate Services Manager, Shayne Dyrdal*
Guest participating remotely	Tyler Neels, Grant Thornton

(* Denotes partial attendance)

1. Call to Order - Chair

Mayor Basran called the meeting to order at 1:04 p.m.

2. Confirmation of Minutes - 2020

Moved By Councillor Given

R0001/04/29/21 THAT the Minutes of the Audit Committee Meeting of July 14, 2020 be confirmed as circulated.

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 the current audit process largely occurring remotely.
- There is no follow-up from previous years' audit to report.

4. 2020 Airport Financial Statements

4.1 Auditor's Report and Airport Financial Statement

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 2020.
- Decline in passenger numbers resulted in a corresponding decline in revenue.
- Provided comments on impacts of pandemic on airport financial statements.
- Both costs and expenditures decreased in 2020.
- Provided comments on increase in cash flow.
- Spoke to Notes to the Financial Statements Note #8 "Accumulated Surplus".
- Responded to questions from the Audit Committee.

Moved By Councillor Stack

R0002/04/29/21 THAT the Audit Committee, receive for information, the 2020 Airport Financial Statements, dated April 29, 2021.

Carried

5. 2020 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.

5.2 Memorandum - Review of Consolidated Financial Statements

Staff:

- Displayed Consolidated Financial Statements.
- Provided an overview of the Statements.
- Responded to questions regarding the financials pertaining to the disposal of garbage trucks and the sharing of any lost costs.

City Manager:

- Made comment on disposal of garbage trucks.

5.3 Notes to the Financial Statements and Supporting SchedulesTyler Neels, Auditor

- Shared Notes to the Consolidated Financial Statements.
- Provided comments on the Notes and Schedules.
- Responded to questions from Audit Committee regarding Note 8.

Divisional Director, Financial Services:

- Responded to questions regarding Note 8.

5.4 Financial Health Indicators

Staff:

- Displayed a PowerPoint presentation.

- Displayed various Sustainability ratios and provided comment on each.
- Displayed various Flexibility ratios and provided comment on each.
- Displayed various Vulnerability ratios and provided comment on each.
- Confirmed overall financial health of the City is strong.
- City well positioned for 2021.
- Responded to questions from the Audit Committee.

The meeting recessed at 2:27 p.m.

The meeting reconvened at 2:44 p.m.

6. Resolution Closing the Meeting to the Public

Moved By Councillor Given

R0003/04/29/21 THAT this meeting be closed to the public pursuant to Section 90(1)(l) of the Community Charter for the Audit Committee to deal with matters relating to the following:

- Annual Report.

Carried

7. Adjourn to Closed Session

The meeting adjourned to a closed session at 2:44 p.m.

8. Reconvene to Open Session

The meeting reconvened to an open session at 3:24 p.m.

9. 2020 Financial Statements

9.1 Memorandum - Audit Committee Review of 2020 Surplus and Reserves

Staff:

- Provided comments on 2020 Operating Surpluses by Division.
- Provided comments on Summary of Utility Funds.
- Provided comments on Reserve Funds - General and Statutory.

9.2 Memorandum -2020 Surplus from Operations

Divisional Director, Financial Services:

- Confirmed loss from disposal, \$700K.
- Provided comments on the late memo circulated to the Audit Committee.
- Provided comments on the memo circulated in the agenda package.
- Spoke to the accumulated surplus recommendations.
- Made comment on a proposed P3 reserve that would come forward at a later date.
- Responded to questions from the Audit Committee.

Moved By Councillor Stack

R0004/04/29/21 THAT the 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.

Carried

10. Consideration of Financial Statements and Surplus Allocation

- 10.1 Draft Report to Council - Audit Committee Review of 2020 Financial Statement and Recommendation**
- 10.2 Adoption of Financial Statements, Surplus Allocation Recommendation and Report to Council**

Moved By Councillor Given

R0005/04/29/21 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

Carried

11. Termination

The meeting was declared terminated at 3:53 p.m.

Mayor Basran

sf/acm



2021

Financial Statements

Kelowna International Airport

Kelowna, British Columbia, Canada
For the year ended December 31, 2021



KELOWNA INTERNATIONAL AIRPORT

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Independent Auditor's Report

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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, 2021, 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, 2021, 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 5, 2022

Grant Thornton LLP

Chartered Professional Accountants

KELOWNA INTERNATIONAL AIRPORT

Statement of Financial Position

As at December 31, 2021


(in thousands of dollars)

	Actual 2021	Actual 2020
Financial Assets		
Cash and cash equivalents	\$ 4,989	\$ 3,676
Accounts receivable	6,605	2,052
Portfolio investments	28,397	29,087
	<u>39,991</u>	<u>34,815</u>
Liabilities		
Accounts payable	2,425	2,904
Performance deposits	218	211
Deferred revenue	435	214
Mortgage payable (Note 3)	-	900
Long term payable (Note 4)	743	1,093
Debenture debt (Note 5)	11,904	14,062
	<u>15,725</u>	<u>19,384</u>
Net Financial Assets	<u>24,266</u>	<u>15,431</u>
Non-Financial Assets		
Prepaid expenses	216	107
Inventory	368	210
Work in progress (Note 6)	7,922	6,557
Tangible capital assets (Note 7)	141,450	144,432
	<u>149,956</u>	<u>151,306</u>
Accumulated Surplus (Note 8)	<u>\$ 174,222</u>	<u>\$ 166,737</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, 2021
(in thousands of dollars)

	Budget 2021	Actual 2021	Actual 2020
Revenue			
Sale of services (Note 12)	\$ 7,669	\$ 12,331	\$ 11,536
Interest earned	158	185	301
Government transfers (Note 13)	936	7,269	1,149
Actuarial increase	-	262	194
	<u>8,763</u>	<u>20,047</u>	<u>13,180</u>
Airport improvement fee (Note 11)	5,860	9,483	7,351
	<u>14,623</u>	<u>29,530</u>	<u>20,531</u>
Expenses (Note 14)			
Administration	4,597	4,009	3,592
Interest	584	584	584
Terminal operations	4,708	5,475	5,445
Airport improvement fee	-	4,884	5,144
Airport policing	162	162	173
Groundside operations	2,497	3,257	3,305
Airside operations	3,483	3,674	3,711
	<u>16,031</u>	<u>22,045</u>	<u>21,954</u>
Annual Surplus (Deficit)	<u>\$ (1,408)</u>	7,485	(1,423)
Accumulated Surplus, beginning of year		<u>166,737</u>	<u>168,160</u>
Accumulated Surplus, end of year		<u>\$ 174,222</u>	<u>\$ 166,737</u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2021
(in thousands of dollars)

	Budget 2021	Actual 2021	Actual 2020
Annual Surplus (Deficit)	\$ (1,408)	\$ 7,485	\$ (1,423)
Amortization of tangible capital assets	-	7,543	7,748
Acquisition of tangible capital assets	(83,101)	(5,926)	(5,369)
Change in inventory and prepaid expenses	-	(267)	138
Increase (decrease) in Net Financial Assets	(84,509)	8,835	1,094
Net Financial Assets, beginning of year	15,431	15,431	14,337
Net Financial Assets, end of year	\$ (69,078)	\$ 24,266	\$ 15,431

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT

Statement of Cash Flows

For the Year Ended December 31, 2021

(in thousands of dollars)

	Actual 2021	Actual 2020
Net inflow (outflow) of cash and cash equivalents related to the following activities:		
Operating		
Annual surplus (deficit)	\$ 7,485	\$ (1,423)
Adjustment for non-cash items		
Amortization of tangible capital assets	7,543	7,748
Actuarial adjustment on debenture debt	(262)	(194)
(Increase) decrease in assets		
Accounts receivable	(4,552)	2,397
Inventory and prepaid expenses	(267)	138
(Decrease) increase in liabilities		
Accounts payable	(479)	(1,012)
Performance deposits	7	(99)
Deferred revenue	221	(267)
	<u>9,696</u>	<u>7,288</u>
Capital		
Acquisition of tangible capital assets	<u>(5,926)</u>	<u>(5,369)</u>
Investing		
Change in investments	<u>690</u>	<u>2,381</u>
Financing		
(Decrease) increase in long term payable	(350)	1,093
Repayment of mortgage payable	(900)	(900)
Repayment of debenture debt	(1,897)	(1,897)
	<u>(3,147)</u>	<u>(1,704)</u>
Net increase in cash and cash equivalents	1,313	2,596
Cash and cash equivalents, beginning of year	<u>3,676</u>	<u>1,080</u>
Cash and cash equivalents, end of year	\$ 4,989	\$ 3,676

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

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 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 2021, and expects flights, passenger volumes and revenues to continue to be impacted well beyond 2022. 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.

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.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

2. Significant accounting policies (continued)

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

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

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

2. Significant accounting policies (continued)

Liability for Contaminated Sites (continued)

- 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 recorded as at December 31, 2020 and 2021.

Use of estimates

Management has made estimates and assumptions that affect the amounts reported in preparing these financial statements. The significant areas 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 is 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 projects and accumulations for specific purposes.

3. Mortgage payable

The Airport's mortgage balance is \$Nil (2020 - \$900). The annual amount of principal repayment was \$900 per year. The mortgage did not bear interest and was secured in specific land.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

4. Long-term payable

The Airport has arranged for payment terms beyond a year for certain payables amounting to \$743, as at December 31, 2021 (2020 - \$1,093) due to the significant impact of COVID-19. These payables will be paid in full by December 31, 2023 and are non-interest bearing.

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	\$ 4,188	\$ 3,312	2025-10-02
9867	137	2.60	3,500	1,600	1,900	2026-04-19
9867	139	2.10	3,000	1,389	1,611	2026-10-05
9867	141	2.80	8,000	2,919	5,081	2027-04-07
			<u>\$ 22,000</u>	<u>\$ 10,096</u>	<u>\$ 11,904</u>	

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

2022	2023	2024	2025	2026
<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,258</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:

	2021	2020
Cash deposits held by MFA	\$ 245	\$ 243
Demand notes held by MFA	1,021	1,021
	<u>\$ 1,266</u>	<u>\$ 1,264</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

6. Work in progress

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

	<u>Buildings</u>	<u>Infrastructure</u>	<u>Machinery & Equipment</u>	<u>Total 2021</u>	<u>Total 2020</u>
Cost					
Balance, beginning of year	\$ 5,854	\$ 459	\$ 244	\$ 6,557	\$ 7,047
Add: additions during the year	1,608	-	20	1,628	3,269
Less: transfers to tangible capital assets	(123)	-	(140)	(263)	(3,759)
Balance, end of year	\$ 7,339	\$ 459	\$ 124	\$ 7,922	\$ 6,557

7. Tangible capital assets

	<u>Land</u>	<u>Land Improvement</u>	<u>Buildings</u>	<u>Infrastructure</u>	<u>Machinery & Equipment</u>	<u>Total 2021</u>	<u>Total 2020</u>
Cost							
Balance, beginning of year	\$ 16,557	\$ 13,276	\$ 65,283	\$ 85,522	\$ 56,522	\$ 237,160	\$ 231,301
Add: additions during the year	-	-	-	3,928	370	4,298	2,100
Add: transfers from work in progress	-	-	123	-	140	263	3,759
Balance, end of year	16,557	13,276	65,406	89,450	57,032	241,721	237,160
Accumulated Amortization							
Balance, beginning of year	-	8,510	29,412	36,204	18,602	92,728	84,980
Add: amortization	-	466	1,771	2,652	2,654	7,543	7,748
Balance, end of year	-	8,976	31,183	38,856	21,256	100,271	92,728
Net book value of tangible capital assets	\$ 16,557	\$ 4,300	\$ 34,223	\$ 50,594	\$ 35,776	\$ 141,450	\$ 144,432

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

8. Accumulated surplus

	Reserves for future expenditure	General surplus	Investment in tangible capital assets	2021 Total	2020 Total
Accumulated surplus, beginning of year	\$ 28,369	\$ 2,407	\$ 135,961	\$ 166,737	\$ 168,160
Annual surplus (deficit)	124	14,643	(7,282)	7,485	(1,423)
Transfers	11,838	(11,838)	-	-	-
Acquisition of tangible capital assets	(5,926)	-	5,926	-	-
Retirement of debt	-	(2,805)	2,805	-	-
Accumulated surplus, end of year	<u>\$ 34,405</u>	<u>\$ 2,407</u>	<u>\$ 137,410</u>	<u>\$ 174,222</u>	<u>\$ 166,737</u>

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, 2020, the plan has about 220,000 active members and approximately 112,000 retired members. Active members include approximately 42,000 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 \$2.9 billion funding surplus for basic pension benefits on a going concern basis.

The Airport paid \$340 (2020 - \$328) for employer contributions to the plan in fiscal 2021, while employees contributed \$272 (2020 - \$261) to the plan in fiscal 2021.

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.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

9. Contingent liabilities (continued)

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.

10. Commitments

At December 31, 2021, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$293 (2020 - \$5,125).

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 certain air 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). AIF revenues can only be used to fund Airport infrastructure projects and associated financing costs. During the year ended December 31, 2021, the City recognized \$9,483 (2020 - \$7,351), in airport improvement fee revenue.

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, 2021:

	<u>2021</u>	<u>2020</u>
Cumulative AIF revenue	\$ 169,238	\$ 159,755
Cumulative AIF expenditures	<u>172,664</u>	<u>164,411</u>
Deficiency of revenue over expenditures	<u>\$ (3,426)</u>	<u>\$ (4,656)</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2021

(all amounts are presented to the 000's of dollars)

12. Sale of service by object

	<u>2021</u>	<u>2020</u>
Parking revenue	\$ 3,317	\$ 2,990
Airport landing fees	2,307	2,074
Airport terminal fees	1,723	1,502
Car rental concessions	1,886	2,603
Terminal concessions	346	297
Lease revenue	1,650	1,403
Other	1,102	667
	<u>\$ 12,331</u>	<u>\$ 11,536</u>

13. Government transfers

Due to the completion or progress of the projects in 2021 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>2021</u>	<u>2020</u>
Canadian Air Transport Security Authority	Restricted	Terminal Buildings - baggage handling operations	\$ 116	\$ 122
Province of British Columbia	Restricted	Freshet & Culvert	-	232
Federal Government	Restricted	Western Diversification	75	295
Province of British Columbia	Restricted	Provincial COVID-19 Relief	720	500
Federal Government	Restricted	Regional Air Transportation Initiative	3,261	-
Federal Government	Restricted	Airport Relief Fund	3,097	-
			<u>\$ 7,269</u>	<u>\$ 1,149</u>

KELOWNA INTERNATIONAL AIRPORT
Notes to the Financial Statements
December 31, 2021
(all amounts are presented to the 000's of dollars)

14. Expenses by object

Expenses reported by object comprise:

	<u>2021</u>	<u>2020</u>
Materials and supplies	\$ 1,768	\$ 1,898
Amortization	7,543	7,748
Salaries and benefits	4,458	4,374
Contract and professional services	5,292	5,114
Policing and other Municipal services	1,819	1,699
Interest expense	584	584
Utilities	581	537
	<u>\$ 22,045</u>	<u>\$ 21,954</u>

15. Budget data

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15th 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>
Revenue	
Operating budget	<u>\$ 14,623</u>
Expenses	
Operating budget	16,031
Capital budget	<u>83,101</u>
	<u>99,132</u>
Annual deficit per approved budget	(84,509)
Add: capital expenses	<u>83,101</u>
Annual deficit per statement of operations	<u><u>\$ (1,408)</u></u>



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Memo



Date: April 28, 2022

To: Audit Committee

From: Genelle Davidson, Divisional Director, Financial Services

Subject: Audit Committee Review of Kelowna International Airport's December 31, 2021 Audited Financial Statements

Report Prepared by: Shayne Dyrdal, Senior Airport Finance and Corporate Services Manager and Matt Friesen, Airport Financial Analyst

Purpose of Kelowna International Airport's Financial Statements

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

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] shall submit within 120 days after the [City'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, 2021 and December 31, 2020.

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 \$40 million ("M") exceeded its liabilities of \$15.7M by \$24.3M at December 31, 2021. As a result, the Airport has sufficient financial assets to settle its existing liabilities as at December 31, 2021. The Airport's net financial assets increased \$8.9M from \$15.4M at December 31, 2020 to \$24.3M at December 31, 2021, mainly due to a \$4.6M increase in accounts receivable, a \$2.2M decrease in debenture debt, a \$1.3M increase in cash, and a \$0.9M decrease in mortgage payable, which were partially offset by a \$0.7M decrease in investments.

Financial Assets

The Airport's financial assets have increased by approximately \$5.2M from \$34.8M at December 31, 2020 to \$40M at December 31, 2021 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 \$1.3M from \$3.7M to \$5.0M between December 31, 2020 and December 31, 2021. Further details on these movements have been included below under the discussion on the Airport's Statement of Cash Flows.

ii. Accounts receivable

The Airport's account receivables increased approximately \$4.5M from \$2.1M at December 31, 2020 to \$6.6M at December 31, 2021. This was mainly due to a \$3.2M accrual for the Regional Air Transportation Initiative grant, which was awarded in 2021 but not received until 2022. The remainder of the increase is due to revenues being higher in 2021 than in 2020 as the Airport commenced its recovery from the COVID-19 pandemic and passenger numbers increased from 737k in 2020 to 830k in 2021.

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 \$0.7M between December 31, 2020, and December 31, 2021, as portfolio investments were used to help fund expenditures.

Liabilities

The Airport's liabilities have decreased \$3.7M from \$19.4M at December 31, 2020 to \$15.7M at December 31, 2021, due to the movements outlined below:

i. Accounts payable

The Airport's accounts payable decreased \$0.5M from \$2.9M at December 31, 2020 to \$2.4M at December 31, 2021 mainly due to a \$0.4M decrease in holdbacks. The decrease in holdbacks was mainly due to fewer multi-year capital projects in 2021, in order to help reduce costs and mitigate the significant, negative impact of the COVID-19 pandemic. As a result, the capital projects requiring a holdback were completed in 2021 and the outstanding holdbacks were paid.

ii. Deferred revenue

The Airport's deferred revenue consists of cash received for services not yet provided with regards to aircrew parking, shuttle and limo licenses, advertising, annual aircraft parking and leases. The Airport's deferred revenue increased \$0.2M from \$0.2M at December 31, 2020 to \$0.4M at December 31, 2021, mainly due to overpayments received in 2021 for car rental revenues.

iii. 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, 2020, and December 31, 2021 is due to the annual payment that was made in 2021 which represents the last annual payment for this mortgage payable.

iv. Long term payable

The Airport's long term payable mainly consists of the 2021 municipal services and administration fees payable to the City of Kelowna (the Municipal Fee). Due to the significant, negative impact of the COVID-19 pandemic, \$1.0M of the \$1.5M 2020 Municipal Fee was deferred and agreed to be paid between 2021 and 2023. The \$0.4M decrease in the long term payable between December 31, 2020, and December 31, 2021, is due to the annual payment that was made in 2021. The remaining \$0.7M represents the annual payments which will be made in 2022 and 2023. This long term payable is non-interest bearing.

v. Debenture debt

The Airport's debenture debt consists of four debt issuances from the Municipal Finance Authority as outlined below. The \$2.2M decrease in debenture debt from \$14.1M at December 31, 2020 to \$11.9M at December 31, 2021 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, 2021
October 2015	10	7,500,000	4,188,000	3,312,000
April 2016	10	3,500,000	1,600,000	1,900,000
October 2016	10	3,000,000	1,389,000	1,611,000
April 2017	10	8,000,000	2,919,000	5,081,000
Total		\$22,000,000	\$10,096,000	\$11,904,000

Non-financial Assets

The Airport's non-financial assets have decreased \$1.3M from \$151.3M at December 31, 2020 to \$150M at December 31, 2021 due to the movements outlined below:

i. Prepaid expenses

The Airport's prepaid expenses increased \$0.1M from \$0.1M to \$0.2M between December 31, 2020, and December 31, 2021. This increase was mainly due to the increase in expenditures in 2021, compared to the end of 2020, as the airport entered the recovery phase of the COVID-19 pandemic in the last quarter of 2021.

ii. Inventory

The Airport's inventory consists of chemicals, fuel and supplies. Inventory increased \$0.2M from \$0.2M at December 31, 2020, to \$0.4M at December 31, 2021, mainly due to an increase in chemical purchases for winter operations in the fourth quarter of 2021 in order to mitigate supply chain issues that were anticipated subsequent to the to the atmospheric river event and closing of the Coquihalla highway in the last quarter of 2021.

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 increased \$1.3M from \$6.6M to \$7.9M between December 31, 2020, and December 31, 2021, mainly due to the addition of \$1.5M in terminal expansion design costs, which was partially offset by the transfer of \$0.3M of costs to tangible capital assets upon the completion of construction projects during the year ended December 31, 2021.

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 \$2.9M from \$144.4M at December 31, 2020, to \$141.5M at December 31, 2021, due to additions of \$4.6M (transfer from work in progress represents \$0.3M) which were offset by the recognition of \$7.5M in amortization. The \$4.6M of additions mainly consisted of the (i) taxiway Delta pavement rehabilitation project (\$3.9M), (ii) parking lot equipment replacement (\$0.4M), and a number of smaller projects.

Accumulated Surplus

The Airport's accumulated surplus increased by \$7.5M from \$166.7M at December 31, 2020 to \$174.2M at December 31, 2021. The Airport's cumulative revenues exceed its cumulative expenditures by \$174.2M as at December 31, 2021. 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, 2021, and December 31, 2020. This statement provides a summary of the Airport's operations during 2021 and 2020.

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 2021 and does not include any transfers or amendments that were subsequently approved.

Annual surplus

The Airport had an annual surplus of \$7.5M for the year ended December 31, 2021, due to revenues of \$29.5M exceeding expenditures of \$22.0M. The Airport's annual surplus increased by \$8.9M between 2020 and 2021, as revenues increased by \$9M while expenditures increased by \$0.1M. 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 annual operating surplus is \$7.5M, as shown below.

	Year ended December 31, 2021
Annual Surplus (deficit)	\$7,485,000
Add: Amortization	\$7,543,000
Less: Conditional transfers (reimbursement of operating costs)	(\$7,269,000)
Less: Actuarial increase for debenture debt	(\$262,000)
	<u>\$7,497,000</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	\$9,483,000	\$3,113,000	\$5,926,000	\$3,256,000	\$7,752,000	\$29,530,000
Expenditure	(\$4,884,000)	(\$3,674,000)	(\$3,257,000)	(\$5,475,000)	(\$4,755,000)	(\$22,045,000)
Annual Surplus (Deficit)	\$4,599,000	(\$561,000)	\$2,669,000	(\$2,219,000)	\$2,997,000	\$7,485,000

Revenue

The Airport's revenues consist of sale of services, interest earned, transfers from the Government, and actuarial increase. Total revenues increased by \$9M from \$20.5M to \$29.5M between 2020 and 2021. The COVID-19 pandemic has had a significant, negative impact on the Airport's operations in 2020 and 2021. The Airport commenced its recovery from the COVID-19 pandemic in 2021, which resulted in passenger numbers increasing 14% in 2021 when compared to 2020. This, along with substantial government grants, has resulted in an increase in revenues, as outlined below:

i. Sale of services

The Airport's sale of services of \$12.3M mainly consist of vehicle parking revenues (\$3.3M), landing fees (\$2.3M), car rental fees (\$1.9M), terminal fees (\$1.7M), lease revenues (\$1.7M), and other revenues (\$1.1M). Sale of services increased \$0.8M between the years ended December 31, 2020, and December 31, 2021, mainly due to a 0.4M increase in concession revenues, a \$0.3M increase in parking revenues, a 0.2M increase in landing fees, a \$0.2M increase in terminal fees, and a 0.2M increase in lease revenue, which were partially offset by a \$0.7M decrease in car rental fees.

ii. Airport improvement fees

The Airport earned \$2.1M more in airport improvement fees (AIF) during the year ended December 31, 2021, than the year ended December 31, 2020. This is due to a 14% increase in enplaned passengers compared to 2020 combined with an increase in the AIF from \$20 per enplaned passenger to \$25 per enplaned passenger which became effective March 1, 2020.

iii. Interest earned

The Airport earned \$0.1M less in interest during the year ended December 31, 2021, than the year ended December 31, 2020, due to the reduction of interest rates starting in the second quarter of 2020.

iv. Government transfers

The Airport's grants from the federal and provincial government increased \$6.1M between the year ended December 31, 2020, and the year ended December 31, 2021, mainly due to the receipt of the Regional Air Transportation Initiative federal grant (\$3.3M) and the Airport Relief Fund federal grant (\$3.1M).

v. Actuarial Increase

The actuarial increase for the Airport's debenture debt increased \$0.1M between the years ended December 31, 2020, and December 31, 2021.

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 remained consistent at \$22.0M between the years ended December 31, 2020, and December 31, 2021. During 2020 and 2021, certain measures were implemented to help reduce operating expenditures and mitigate the significant, negative impact the COVID-19 pandemic had on the Airport's business. Further details are outlined in the following:

i. Administration

Administration expenditures increased by \$0.4M between the years ended December 31, 2020, and December 31, 2021. Administration expenditures include the Municipal Fee which increased \$0.1M from \$1.5M in 2020 to \$1.6M in 2021. The remaining administration expenditures increased \$0.3M from \$2.1M for the year ended December 31, 2020, to \$2.4M for the year ended December 31, 2021. The increase in administration expenditures was mainly due to a \$0.2M increase in professional and consulting services largely attributed to services required for federal grant applications.

ii. Terminal expenditures

Terminal expenditures consist of expenditures associated with the operation and maintenance of the Airport's terminal building. Terminal expenditures remained consistent between 2020 and 2021. Measures implemented in 2020 to help mitigate the significant, negative impact of the COVID-19 pandemic were in effect for the majority of 2021 and resulted in similar spending for the operation and maintenance of the terminal compared to 2020.

iii. Airport Improvement Fee expenditures

Airport Improvement Fee expenditures decreased \$0.2M from \$5.1M in 2020 to \$4.9M in 2021 due to a decrease in amortization expense (\$0.2M).

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 remained consistent between 2020 and 2021. Measures implemented in 2020 to help mitigate the significant, negative impact of the COVID-19 pandemic were in effect for the majority of 2021 and resulted in similar spending for the operation and maintenance of the Airport groundside lands, compared to 2020.

v. Airside expenditures

Airside expenditures consist of the costs associated with operating and maintaining the Airport lands within the security perimeter including the apron, taxiways and runway, but excluding the terminal building. Airside expenditures remained consistent at \$3.3M between 2020 and 2021. Measures implemented in 2020 to help mitigate the significant, negative impact of the COVID-19 pandemic were in effect for the majority of 2021 and resulted in similar spending for the operation and maintenance of the Airport airside lands compared to 2020.

When expenditures are assessed for the Airport as a whole rather than by business segment, expenditures by type remained consistent between 2020 and 2021, as outlined below:

i. Materials and supplies

The cost of materials and supplies decreased \$0.1M between the years ended December 31, 2020, and December 31, 2021. Measures implemented in 2020 to help mitigate the significant, negative impact of the COVID-19 pandemic were in effect for the majority of 2021 and resulted in similar spending for materials and supplies compared to 2020.

ii. Amortization expense

Amortization expense decreased \$0.2M from \$7.7M in 2020 to \$7.5M in 2021, mainly due to a \$0.6M decrease in amortization for assets that were fully amortized in 2021, offset by a \$0.4M increase in amortization for new additions in 2021.

iii. Salaries and benefits

Salaries and benefits increased \$0.1M from \$4.4M to \$4.5M between the years ended December 31, 2020, and December 31, 2021. Measures implemented in 2020 to help mitigate the significant, negative impact of the COVID-19 pandemic were in effect for the majority of 2021 and resulted in similar spending for salaries and benefits compared to 2020.

iv. Contract and professional services

Contract and professional services increased \$0.2M between the years ended December 31, 2020, and December 31, 2021, mainly due to services obtained to help apply for federal grant applications.

v. Policing and other Municipal services

Policing and other Municipal services increased \$0.1M from \$1.7M in 2020 to \$1.8M in 2021, due to an increase in 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 \$8.9M from \$15.4M at December 31, 2020 to \$24.3M at December 31, 2021. This is mainly attributed to an annual surplus after depreciation of \$7.5M combined with depreciation of \$7.5M, which was partially offset by the acquisition of \$5.9M of tangible capital assets.

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 \$1.3M between December 31, 2020, and December 31, 2021, as the Airport generated \$9.7M in cash from operations, changed \$0.7M in portfolio investments to cash, acquired \$5.9M of tangible capital assets, repaid debenture debt principal of \$1.9M, repaid \$0.9M of the mortgage payable, and repaid \$0.4M of the long term payable.

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 2021, and expects flights, passenger volumes and revenues to continue to be impacted well beyond 2022. 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, 2021, the Airport paid \$0.3M for employer contributions to the Municipal Pension Plan.

Commitments

At December 31, 2021, the Airport had entered into commitments of \$0.3M.

This concludes the review of the Airport's Audited Financial Statements for the years ended December 31, 2021, and December 31, 2020.

2021

Consolidated Financial Statements

Kelowna, British Columbia, Canada
For the year ended December 31, 2021



CITY OF KELOWNA

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Independent auditor's 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, 2021, and the consolidated statements of operations and accumulated surplus, consolidated statement of changes in net financial assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, 2021, 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 28, 2022

Chartered Professional Accountants

CITY OF KELOWNA
Consolidated Statement of Financial Position
As at December 31, 2021
(in thousands of dollars)

	<u>2021</u>	<u>2020</u>
Financial Assets		
Cash and cash equivalents (Note 3)	\$ 103,765	\$ 76,434
Accounts receivable (Note 3)	47,450	29,783
Accrued interest	2,424	2,134
Portfolio investments (Note 3)	580,710	547,799
Long term investments (Note 10)	6,000	6,000
Assets held for resale	13,271	10,171
	<u>753,620</u>	<u>672,321</u>
Liabilities		
Accounts payable	50,762	80,452
Performance deposits	31,448	27,299
Deferred revenue (Note 3)	53,745	45,510
Deferred development cost charges (Note 3)	124,585	83,754
Long term debt (Note 3)	81,617	92,653
	<u>342,157</u>	<u>329,668</u>
Net Financial Assets	<u>411,463</u>	342,653
Non-Financial Assets		
Prepaid expenses	9,744	11,631
Inventory	1,420	1,290
Work in progress (Note 4)	26,868	24,092
Tangible capital assets (Note 4)	1,822,168	1,823,501
	<u>1,860,200</u>	<u>1,860,514</u>
Accumulated Surplus (Note 5)	<u>\$ 2,271,663</u>	<u>\$ 2,203,167</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, 2021
(in thousands of dollars)

	Budget 2021	Actual 2021	Actual 2020
Revenue			
Taxation (Note 6)	\$ 171,178	\$ 171,366	\$ 162,405
Fees and charges	110,436	142,185	118,146
Interest earned	4,009	11,540	13,199
DCC contributions	27,455	11,706	14,391
Government transfers (Note 7)	36,412	35,829	34,579
Other capital contributions	550	4,555	4,714
Gain on disposal of tangible capital assets	-	1,869	2,887
	<u>350,040</u>	<u>379,050</u>	<u>350,321</u>
Expenses			
General government	41,637	41,441	33,692
Protective services	73,268	73,909	65,063
Transportation	41,180	66,473	63,781
Recreation & cultural	40,815	44,101	41,707
Other services	24,483	25,379	24,031
Airport	16,032	21,997	21,907
Wastewater	12,878	21,420	21,913
Water	11,175	15,257	14,571
Loss on disposal of tangible capital assets	-	37	819
Write down of tangible capital assets	-	540	82
	<u>261,468</u>	<u>310,554</u>	<u>287,566</u>
Annual Surplus	<u>\$ 88,572</u>	<u>68,496</u>	62,755
Accumulated Surplus, beginning of year		<u>2,203,167</u>	2,140,412
Accumulated Surplus, end of year		<u>\$ 2,271,663</u>	<u>\$ 2,203,167</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, 2021
(in thousands of dollars)

	Budget 2021	Actual 2021	Actual 2020
Annual Surplus	\$ 88,572	\$ 68,496	\$ 62,755
Amortization of tangible capital assets	-	68,824	68,155
Proceeds from disposal of tangible capital assets	-	2,098	5,191
Gain on disposal of tangible capital assets	-	(1,832)	(2,067)
Write down of tangible capital assets	-	540	82
Acquisition of tangible capital assets	(235,156)	(69,219)	(88,013)
Contributions of tangible capital assets	-	(1,854)	(2,263)
Change in inventory and prepaid expenses	-	1,757	(1,409)
Increase (decrease) in Net Financial Assets	(146,584)	68,810	42,431
Net Financial Assets, beginning of year	342,653	342,653	300,222
Net Financial Assets, end of year	\$ 196,069	\$ 411,463	\$ 342,653

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2021
(in thousands of dollars)

	<u>Actual 2021</u>	<u>Actual 2020</u>
Net inflow (outflow) of cash and cash equivalents related to the following activities		
Operating		
Annual surplus	\$ 68,496	\$ 62,755
Adjustment for non-cash items		
Amortization of tangible capital assets	68,824	68,155
Gain on disposal of tangible capital assets	(1,832)	(2,067)
Write down of tangible capital assets	540	82
Actuarial adjustment on long term debt	(2,072)	(2,159)
Contributions of tangible capital assets	(1,854)	(2,263)
Decrease (increase) in		
Accounts receivable	(17,667)	10,355
Inventory and prepaid expenses	1,757	(1,409)
Other assets	(3,390)	(4,789)
Increase (decrease) in		
Accounts payable	(29,690)	17,168
Deferred development cost charges	40,831	4,654
Other liabilities	12,384	(658)
	<u>136,327</u>	<u>149,824</u>
Capital		
Acquisition of tangible capital assets	(69,219)	(88,013)
Proceeds from disposal of tangible capital assets	2,098	5,191
	<u>(67,121)</u>	<u>(82,822)</u>
Investing		
Change in investments	(32,911)	1,393
Financing		
Proceeds from issuance of long term debt	-	73
Repayment of long term debt	(8,964)	(10,876)
	<u>(8,964)</u>	<u>(10,803)</u>
Net increase (decrease) in cash and cash equivalents	27,331	57,592
Cash and cash equivalents, beginning of year	76,434	18,842
Cash and cash equivalents, end of year	\$ 103,765	\$ 76,434
Non-cash capital activities		
Acquisition of tangible capital assets through contributions (Note 4)	\$ 1,854	\$ 2,263

See accompanying notes to the consolidated financial statements.

Memo

Date: April 28, 2022
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of December 31, 2021
Consolidated Financial Statements

Report Prepared by: Corporate Finance Manager



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

Consolidated Statement of Financial Position

This statement presents the Net Financial Assets, Non-Financial Assets and Accumulated Surplus as at December 31, 2021 and December 31, 2020 and represents the cumulative impact of past transactions and events on future revenue requirements 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 financial assets of \$753.6M exceeded its liabilities of \$342.1M at December 31, 2021. As a result, the City's net financial assets increased by \$68.8M from \$342.7M at December 31, 2020 to \$411.5M at December 31, 2021 indicating the City has sufficient financial assets to settle its existing liabilities. The increase in Net Financial Assets in the year is mainly attributable to a \$27.3M increase in cash and cash equivalents, a \$32.9M increase in portfolio investments, and a \$40.8M increase in deferred development cost charges; offset by a \$29.7M decrease in accounts payable, and an \$11.0M decrease in long-term debt. 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 \$81.3M from \$672.3M at December 31, 2020 to \$753.6M at December 31, 2021.

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 \$27.3M for the year ended December 31, 2021, as interest rates on potential investment options were below the rate received from the bank. Therefore, the investment strategy included holding more money in the bank rather than locking into low interest rates.

B. Accounts Receivable

The 2021 balance of \$47.5M is an increase of \$17.7M over the prior year. This is primarily due to significant increases development cost charges. Developers have the option of paying their development cost charges in thirds, with the first third payable immediately. The remaining two thirds are set up as Accounts Receivable and secured by a Letter of Credit. Federal grant funds for the Airport as part of the Regional Airport Transportation Initiative (RATI) also contributed to the increase.

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 2021, assets held for resale totalled \$13.3M in cost. Assets held for resale may include land, buildings, and machinery and equipment. The \$3.1M increase for 2021 is due to additional costs for the McDonalds property, land additions for Cross Rd and Snowsell St, as well as five properties on Dougall Rd. 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 2020 land additions included 380 Harvey Ave and 1746 Water St and the sale of machinery and equipment for waste management curbside vehicles.

Liabilities

A. Accounts Payable

Accounts payable at the end of 2021 totaled \$50.8M, a decrease of \$29.7M in the year mainly due to a large accrual of \$26.7M for school tax in 2020 not required in 2021 along with reductions in various holdbacks of \$2.3M.

B. Performance Deposits

Performance deposits increased by \$4.1M to \$31.4M at the end of 2021 due to new projects outpacing project completions from 2020. New projects with significant performance deposits for 2021 include \$2.9M for Appaloosa offsite works, \$2.5M for the Costco building and \$1.6M for the Costco gas bar.

C. Deferred Revenue

The City's deferred revenue consists of cash received for services not yet provided or contributions received in advance to fund project expenditures. They include such items as property tax prepayments, construction, grants, local area service or other deferred revenue. There was an increase of \$8.2M in deferred revenue in 2021 to \$53.7M. The increase is mainly due to higher deferrals for, construction (\$2.0M), and tax prepayments (\$1.6M) along with the Rise Development rent prepayment (\$2.5M) and a payment from the District of Lake Country (\$1.3M).

D. Deferred Development Cost Charges (DCC)

Deferred DCCs increased by \$40.8M to \$124.6M at December 31, 2021 from \$83.7M at December 31, 2020 due to increased development throughout the City. When DCCs are initially assessed and collected from developers, they are deferred until eligible expenditures for infrastructure and parkland acquisitions take place, which may span several years.

In 2021 there were five developments with DCC contributions greater than \$2.0M and seven developments with DCC contributions greater than \$1.0M representing contributions of \$22.5M for the following projects:

- \$4.3M for 1940 Underhill St
- \$3.3M for 560-592 Bernard Ave
- \$3.0M for 1450 Cara Glen Court, 1430 & 1440 Cara Glen Court (Bldgs B & D)
- \$2.4M for 1710-1720 Richter St
- \$2.0M for 2175 Benvoulin Rd
- \$2.0M for 3101 Lakeshore Rd
- \$1.7M for 5100 Gordon Ave
- \$1.6M for 728 Valley Rd
- \$1.1M for 630 Black Mountain Dr
- \$1.1M for 660 Cawston Ave

In 2020, there were only three developments with DCC contributions greater than \$1.0M representing contributions of \$ 4.5M for the following projects:

- \$1.8M for 815 Leon Ave
- \$1.6M for 191 Hollywood Rd S
- \$1.1M for S of Upper Mission Dr

Non-Financial Assets

Non-Financial Assets are comprised of Tangible Capital Assets (TCA), Work in Process, 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 did not change significantly and remains at \$1.86B at December 31, 2021.

A. Prepaid Expenses

Prepaid expenses are outlays that are made in the current fiscal year but pertain to the following fiscal year. Examples of prepaid expenses are insurance premiums, cost-sharing payments to BC Transit and prepayment for community use time at the Multi-purpose facility (RG Arenas). The City's prepaid expenses decreased \$1.9M primarily due to the draw down for the BC Transit prepaid reserve balance and the Multi-purpose facility (RG Arenas).

Accumulated Surplus

The City's Net Financial Assets of \$411.5M plus the Non-Financial Assets balance of \$1.86B totals \$2.3B 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, 2021 and December 31, 2020. 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 2021, 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 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 increased by \$24.0M or 20.0% to \$142.2M in 2021 and is mainly attributable to the significant rise in development activity resulting in increases for permits and inspections, the heat dome resulted in additional water sales revenue and the lifting of COVID-19 public health order restrictions and travel advisories resulted in increases for air travel; public transit; use of recreational facilities; and parking. The City also received significantly more funding from the Community Works Fund than in 2020.

B. DCC Contributions

This revenue represents the amount drawn from previously assessed and collected DCCs to fund current year expenditures for parkland acquisition and development, and infrastructure spending. Contributions drawn to fund current year expenditures decreased by \$2.7M to \$11.7M in 2021 primarily due to a reduction in wastewater projects.

In 2021 a total of \$11.7M in DCC funds were drawn from deferred revenue and allocated to the following projects:

- \$3.8M for Parkland Acquisition – 3684 Lakeshore Rd
- \$1.5M for Lakeshore 1 DCC Bridge at Bellevue Creek
- \$1.0 M for Lakeshore 1 DCC (Dehart – Vintage Terrace), Road
- \$0.7M for Parkland Acquisition – 802 Wilson Ave
- \$0.7M for Water Street DCC Force Main
- \$0.6M for Park Development – Rutland Centennial Park
- \$0.6M for Park Development – Pandosy Waterfront Park

- \$0.6M for Park Development – Ponds Community Park

The \$11.7M in DCC funds used in 2021 was less than the DCC levies received of \$50.8M and interest earned on these funds of \$1.7M.

C. Gain on Disposal of Tangible Capital Assets

For 2021, gains on disposals were primarily due to Land sales (\$1.6M) and equipment sales (\$0.2M).

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 2021 total expenses increased by \$23.0M.

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 \$7.7M in spending to \$41.4M in 2021 over 2020. The increase is attributed to higher salaries (\$3.1M) as a result of staffing increases, general salary and wage increases, a timing difference for management increases – in 2020 increases were delayed to the fall and increases in 2021 were in the spring – and an internal reorganization shifted some costs from Protective Services, Transportation and Recreation and Culture to General Government. In addition to this, there were increased contract and professional services (\$2.6M) due to reduced restrictions related to COVID-19, along with increased grant expense (\$0.5M), and amortization expense (\$0.8M).

B. Protective Services

There was an increase of \$8.8M to \$73.9M over 2020 primarily due to a \$7.0M increase in costs for the RCMP contract due to member salary increases for new the collective agreement and other general cost increases.

Annual Surplus

The Annual Surplus increased by \$5.7M to \$68.5M in 2021 as revenues increased by 8.2% while expense only increased by 8.0% over 2020.

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 \$68.5M, the Accumulated Surplus increased from \$2.20B to \$2.27B. This represents the cumulative results of all surpluses the City has incurred in the General, Airport, Wastewater and Water Funds 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 \$68.8M from \$342.7M at December 31, 2020 to \$411.5M at December 31, 2021.

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 \$68.5M and adds or subtracts the following:

- Add back the non-cash amortization of \$68.8M 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 \$2.1M 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 \$1.8M;
- Add the write down for impaired assets of \$0.5M;
- Subtract the acquisition and contribution of Tangible Capitals Assets in the current year of \$71.0M;
- Add the increase of inventory and prepaid expenses of \$1.7M.

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 \$26.9M.

General Fund tangible capital acquisitions for 2021 include:

Land of \$10.8M comprised of Parkland Acquisition – \$4.3M for 3684 Lakeshore Rd and Property acquisitions – \$1.6M for 1749 Abbott St and \$2.9M for 1144 Pacific Ave.

Buildings capital expenditures of \$7.1M included property acquisitions of \$1.1M for Unit 300-1475 Ellis Street, and \$0.9M for 1749 Abbott St; \$0.8M for Water St Firehall #2 repairs; \$0.7M for Kelowna Community Theatre renewal; \$0.5M for Rutland Centennial Park washroom and \$0.5M for Kelowna Library chiller replacement.

Infrastructure capital expenditures were \$26.0M comprised of the following significant projects: Ethel 3 DCC (Rose-Raymer) ATC \$3.0, Glenmore Recreation Park-Phase 2 construction \$2.2M, Landfill Liner design and construction \$1.9M, Lakeshore 1 DCC Bridge at Bellevue Creek \$1.7M, and Glenmore Recreation Park-Phase 3 \$1.4M.

Machinery & Equipment acquisitions were \$7.0M with the most significant being \$1.4M for Landfill heavy equipment, \$0.9M for Engine 3 and \$0.6M for a heavy-duty truck.

Airport Fund acquisitions were \$4.6M with the most significant being \$3.9M for Airport-Pavement Rehabilitation.

The Wastewater Fund capital expenditures of \$1.2M were primarily for Wastewater support facilities \$0.5M and pipe replacement \$0.3M.

The Water Fund capital expenditures of \$12.5M were primarily for SEKID Separation \$1.9M; Water Meter Replacement-Stage 1 \$1.7M; Adams Reservoir (Phase 2) \$1.5M; Skyline Pump Station DCC-Electrical Building Upgrades \$1.0M; Westridge Transmission (Phase 2) \$0.9M; Clement Ave (Ellis to Richter) \$0.7M; Watermain Renewals-Cadder Ave \$0.6M; Ethel 3C ATC Water Main Replacement \$0.6M; and Raymer Ave (Richter to Gordon) \$0.5M.

The Net Financial Assets at the end of the year of \$411.5M 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 2021 of \$103.8M is an increase of \$27.3M. 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 \$136.3M that were used in the acquisition of new tangible capital assets of \$69.2.0M (net of \$1.8M which were funded through developer contributions). Proceeds from the sale of land and vehicles generated \$2.1M while repayment of debt, net of new debt borrowings was \$9.0M. The balance flowed from Portfolio Investments which decreased by \$32.9M 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 \$136.3M in 2021 down from \$149.8M 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.

- o Amortization – \$68.8M
- o Write Down of Tangible Capital Assets – \$0.5M.
- o Developer Contributed Assets – Land: 1308 Findlay Rd, 613 Carnoustie (630 Black Mountain Dr), and 1280 Wilmot Ave. Other contributed asset: Clement 1.
- o Accounts Receivable and Other assets – Balances increased over the prior year which is a reduction in cash received. Assets held for resale are included here.
- o Other Liabilities 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 \$18.8M to \$69.2M in 2021 from \$88.0M in 2020. Expenditures occurred in the following funds:

	<u>2020</u>	<u>2019</u>
General Fund	\$50.9	\$56.7
Airport	4.6	5.4
Wastewater	1.2	5.2
Water	12.5	20.7

Proceeds on disposal of capital assets decreased by \$3.1M to \$2.1M from \$5.2M in 2020. Proceeds in 2021 were \$1.8M from land sales and \$0.3M from vehicle disposals.

Proceeds in 2020 were \$4.8M from land sales, and \$0.4M from vehicle disposals.

Repayment of debt decreased \$1.9M over 2020.

This concludes the review of the Audited Consolidated Financial Statements for the year ended December 31, 2021.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2021
(in thousands of dollars)

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.

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. Assets are valued at the lower of cost or expected net realizable value. Cost includes amounts for improvements required 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, 2021
(in thousands of dollars)

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>2021</u>	<u>2020</u>
Cash deposits held by MFA	\$ 1,833	\$ 1,812
Demand notes held by MFA	<u>4,135</u>	<u>4,152</u>
	<u>\$ 5,968</u>	<u>\$ 5,964</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 are not reflected in these consolidated financial statements. They include works of art and historic assets located throughout the City.

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, 2021
(in thousands of dollars)

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, 2021
(in thousands of dollars)

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.

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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 380 Harvey Avenue. Clean up activities took place in 2020/21, primarily consisting of soil delineation and groundwater monitoring and work will continue in 2022. A liability in the amount of \$30 (2020 - \$47) is based on contractor estimates of the remaining work to be undertaken.

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 2020/21 and further work will be undertaken in 2022 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 \$300 (2020 - \$170) is based on contractor estimates of the remaining work required to be undertaken.

The City's liability of \$330 (2020 - \$217) 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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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.

Purchased Intangibles, PSG-8

This public sector guideline establishes standards on how to account for and report on purchased intangibles. This public sector guideline applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
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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>2021</u>	<u>2020</u>
Property tax	\$ 6,736	\$ 5,718
Trade receivables	14,295	11,559
Due from government	741	1,058
Due from provincial government	2,827	1,285
Due from regional government	80	41
Utilities	6,565	5,344
Deferred development cost charges	16,206	4,778
	<u>\$ 47,450</u>	<u>\$ 29,783</u>

Portfolio investments

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

<u>Type of investment</u>	<u>2021</u>	<u>2020</u>
Municipal Finance Authority investment funds	\$ 139,658	\$ 130,507
Provincial and bank issued bonds	98,401	94,713
Publicly traded shares	72,209	69,016
Guaranteed Investment Certificates and deposit notes	270,442	253,563
Total Portfolio investments	<u>\$ 580,710</u>	<u>\$ 547,799</u>

The quoted market value of the publicly traded shares at December 31, 2021 was \$125,060 (2020 - \$103,922).

Operating line of credit

The City has an operating line of credit with the Royal Bank of Canada for an authorized amount of \$5,000 bearing interest at bank prime rate less 0.50%. At December 31, 2021 the balance outstanding was \$nil (2020 - \$nil).

CITY OF KELOWNA
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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.

<u>Deferred Revenue by Type</u>	<u>2020</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2021</u>
Tax prepayments	\$ 18,666	\$ 36,387	\$ -	\$ 34,774	\$ 20,279
Construction	15,671	3,052	27	1,033	17,717
Grants	619	783	-	526	876
Other	6,285	14,547	-	10,247	10,585
Local Area Service	4,269	111	-	92	4,288
Total	\$ 45,510	\$ 54,880	\$ 27	\$ 46,672	\$ 53,745

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>2020</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2021</u>
Parks Land/Development	\$ 21,344	\$ 22,176	\$ 473	\$ 7,528	\$ 36,465
Roads	57,647	18,604	1,083	3,143	74,191
Water	14,842	1,289	256	263	16,124
Wastewater	(10,079)	8,771	(115)	772	(2,195)
Total Deferred DCC	\$ 83,754	\$ 50,840	\$ 1,697	\$ 11,706	\$ 124,585

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>
2022	\$ 10,400
2023	9,152
2024	8,712
2025	8,740
2026	7,620
2027 and thereafter	36,993
Total	\$ 81,617

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
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Total outstanding debt issued was \$155,530 and total debt payable at December 31, 2021 was \$81,617 (2020 - \$92,653). Total interest paid in 2021 was \$3,667 (2020 - \$4,052).

Schedule 3 provides a breakdown of long term debt.

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

	2021	2021	2020	2020
	Work in	Tangible capital	Work in	Tangible capital
	progress	assets (NBV)	progress	assets (NBV)
Land	\$ -	\$ 348,576	\$ -	\$ 339,192
Land improvements	336	33,079	86	35,243
Buildings	9,323	187,870	9,015	188,373
Infrastructure	15,323	1,170,786	13,420	1,180,216
Machinery and equipment	1,886	81,857	1,571	80,477
	\$ 26,868	\$ 1,822,168	\$ 24,092	\$ 1,823,501

Contributions received in 2021 include:

<u>Type of contribution</u>	2021	2020
Land	\$ 1,838	\$ 2,263
Infrastructure	16	-
Total Contributed tangible capital assets	\$ 1,854	\$ 2,263

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

During the year, tangible capital assets with a cost of \$540 (2020 - \$82) were written off due to impairment.

During the year, no interest was capitalized \$nil (2020 - \$nil).

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
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5. Accumulated surplus

	Reserves for Future Expenditures	Statutory Reserves	Fund Surpluses	Investment in Tangible Capital Assets	Total 2021	Total 2020
Accumulated surplus, beginning of year	\$ 280,128	\$ 97,128	\$ 64,545	\$ 1,761,366	\$ 2,203,167	\$ 2,140,412
Annual surplus (deficit)	4,873	1,761	109,938	(48,076)	68,496	62,755
Transfers	17,772	15,633	(97,059)	63,654	-	-
Accumulated surplus, end of year	\$ 302,773	\$ 114,522	\$ 77,424	\$ 1,776,944	\$ 2,271,663	\$ 2,203,167

Accumulated Surplus detail as follows:

Description	Balances, Beginning of Year	Transfer From	Transfer To	Annual Surplus	Balances, End of Year
<u>Non-Statutory Reserves</u>					
General Fund reserve	\$ 220,016	\$ 19,989	\$ 24,258	\$ 4,667	\$ 228,952
Airport Fund reserve	28,368	9,385	15,297	124	34,404
Waste Water Fund reserve	10,947	593	6,176	15	16,545
Water Fund reserve	20,797	3,705	5,713	67	22,872
	<u>280,128</u>	<u>33,672</u>	<u>51,444</u>	<u>4,873</u>	<u>302,773</u>
<u>Statutory Reserves</u>					
Parking reserve	7,473	3,309	4,435	118	8,717
Land reserve	9,296	5,681	2,140	192	5,947
Capital works, machinery and equipment reserve	80,359	16,678	34,726	1,451	99,858
	<u>97,128</u>	<u>25,668</u>	<u>41,301</u>	<u>1,761</u>	<u>114,522</u>
<u>Surplus by Fund</u>					
General Fund surplus	4,763	104,869	40,380	73,278	13,552
Airport Fund surplus	2,407	17,448	2,805	14,643	2,407
Waste Water Fund surplus	48,036	11,469	4,159	10,776	51,502
Water Fund surplus	9,339	11,594	977	11,241	9,963
Accumulated Surplus	<u>64,545</u>	<u>145,380</u>	<u>48,321</u>	<u>109,938</u>	<u>77,424</u>
<u>Investment in Non Financial Assets</u>					
Investment in tangible capital assets	1,761,366	8,964	72,618	(48,076)	1,776,944
Accumulated Surplus	\$ 2,203,167	\$ 213,684	\$ 213,684	\$ 68,496	\$ 2,271,663

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>2021</u>	<u>2020</u>
Taxes collected		
Property taxes	\$ 268,596	\$ 239,997
Local improvement levies	146	146
Frontage tax - water	1,668	1,548
Specified sewer area recoveries	1,293	1,292
Grants in lieu of taxes	472	655
Levies - library	6,916	6,797
Levies - other	1,341	1,282
	<u>280,432</u>	<u>251,717</u>
Less transfers to other governments		
Province of BC (school taxes)	79,658	60,941
BC Assessment Authority	2,272	2,262
Regional Hospital District	13,630	13,105
Regional District of Central Okanagan	13,506	13,004
	<u>109,066</u>	<u>89,312</u>
Net taxes available for municipal purposes	<u>\$ 171,366</u>	<u>\$ 162,405</u>

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. During the year \$203 (2020 - \$nil) remained as deferred revenue for future expenditures. In 2021 the City received and recorded as revenue the following transfers:

	<u>2021</u>	<u>2020</u>
Operating transfers		
Federal	\$ 3,699	\$ 176
Provincial	27,403	27,078
Other governments	175	224
	<u>31,277</u>	<u>27,478</u>
Capital transfers		
Federal	760	357
Provincial	3,772	6,720
Other governments	20	24
	<u>4,552</u>	<u>7,101</u>
Total Government transfers	<u>\$ 35,829</u>	<u>\$ 34,579</u>

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
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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, 2020, the plan has about 220,000 active members and approximately 112,000 retired members. Active members include approximately 42,000 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 \$2.9 billion funding surplus for basic pension benefits on a going concern basis.

The City of Kelowna paid \$8,209 (2020 - \$7,840) for employer contributions while employees contributed \$6,834 (2020 - \$6,548) to the plan in fiscal 2021.

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
December 31, 2021
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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.

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, 2021 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 87 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 \$30,660 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 \$4,429 (2020 - \$4,278) represents the portion of the estimated total expenditure recognized as at December 31, 2021. The remaining capacity of the landfill site is estimated at 26.8 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
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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 \$1,800 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 for a 20-year term. Both loans have an interest rate of lender's prime less 0.5%. As at December 31, 2021, the outstanding loan balance was \$537 (2020 - \$613). 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 \$6,727 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 \$5,382 (2020 - \$6,055) 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.

10. Long term investments

Kelowna Developments Ltd.

The investment in Kelowna Developments Ltd., a wholly owned subsidiary, is carried at its cost of \$2.00. 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 \$6,000. 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 \$1.00 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.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2021
(in thousands of dollars)

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 \$68,816 (2020 - \$49,957) 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 \$68,816, the City is holding irrevocable Letters of Credit in the amount of \$18,155 (2020 - \$6,180) which are received from developers to ensure payment of development cost charges in future years.

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, 2021 the Trust Fund balance is \$3,348 (2020 - \$3,178).

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 Kelowna International Airport (the 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 general revenue reported under this segment 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. The expenses within this segment 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.

Protective services

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

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.

Police services, provided by the Royal Canadian Mounted Police, include administration, crime investigation and prevention, traffic, prisoner custody and court liaison expenses.

CITY OF KELOWNA
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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 are comprised of services related to recreation, leisure and culture including administration and program costs as well as grounds and building maintenance. Facilities managed within this segment include parks and playgrounds, arenas, swimming pools, beaches, boat launches, stadiums as well as community and multi-age activity centers. Some of the larger facilities that the City owns and/or operates include the H2O Adventure & Fitness Centre, Parkinson Recreation Centre, Kelowna Community Theatre, Kelowna Museum, Kelowna Library, Kelowna Art Gallery, Capital News Center and the Rotary Centre for the Arts.

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 services in a safe and cost effective manner in compliance with Federal regulations. The Airport is self-funded, provides a payment in lieu of property taxes to the City of Kelowna, and is accounted for in its own fund.

Wastewater services

Kelowna's wastewater 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 75% of Kelowna's population and expansion to unserved areas continues. Kelowna's wastewater system has a treatment capacity of 70 million litres per day. Wastewater Utility is accounted for in its own fund.

Water services

The Water Utility is responsible for planning, expansion, operation and maintenance of the City's Water Supply System 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.

14. Expenses by object

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

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 15th 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>Budget Amount</u>
Revenues:	
Operating budget	\$ 312,263
Capital budget	37,777
	<u>350,040</u>
Expenses:	
Operating budget	261,468
Capital budget	235,156
	<u>496,624</u>
Annual deficit per approved budget	(146,584)
Add: tangible capital asset purchases	235,156
Annual surplus per statement of operations	<u>\$ 88,572</u>

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 \$7,000 to be received over 80 years with an option to renew for an additional 19 years.

As of December 31, 2021, the City of Kelowna received a \$2,700 prepayment with the remaining balance of \$4,300 in the form of non-cash consideration, estimated to be received in 2024.

17. Comparative figures

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

CITY OF KELOWNA
Schedule 1 - Tangible Capital Assets
For the Year Ended December 31, 2021
(in thousands of dollars)

	Machinery & Equipment						Subtotal Machinery & Equipment
	Land	Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computers	
Cost							
Balance, beginning of year	\$ 339,192	\$ 79,111	\$ 357,148	\$ 36,152	\$ 108,235	\$ 22,321	\$ 166,708
Add: additions during the year	12,647	325	2,434	3,425	1,986	1,930	7,341
Add: transfers to tangible capital assets	-	42	5,658	468	3,746	175	4,389
Less: assets held for resale	(3,101)	-	-	-	-	-	-
Less: disposals during the year	(162)	-	-	(663)	(69)	(639)	(1,371)
Balance, end of year	348,576	79,478	365,240	39,382	113,898	23,787	177,067
Accumulated Amortization							
Balance, beginning of year	-	43,868	168,775	21,697	51,687	12,847	86,231
Add: amortization	-	2,531	8,595	2,148	5,006	2,620	9,774
Less: accumulated amortization on disposals	-	-	-	(605)	(21)	(169)	(795)
Less: amortization on assets held for resale	-	-	-	-	-	-	-
Balance, end of year	-	46,399	177,370	23,240	56,672	15,298	95,210
Net Book Value of Tangible Capital Assets	\$ 348,576	\$ 33,079	\$ 187,870	\$ 16,142	\$ 57,226	\$ 8,489	\$ 81,857

	Infrastructure								
	Plant & Facilities	Roads, Lanes, Sidewalks & Bike Paths	Bridges, Tunnels & Overpasses	Underground, Overhead & Other Networks	Airport Infrastructure	Subtotal Infrastructure	Work In Progress	Total 2021	Total 2020
Cost									
Balance, beginning of year	\$ 219,880	\$ 578,887	\$ 35,152	\$ 1,197,431	\$ 85,522	\$ 2,116,872	\$ 24,092	\$ 3,083,123	\$ 2,996,781
Add: additions during the year	552	7,166	134	6,426	3,928	18,206	33,223	74,176	95,375
Add: transfers to tangible capital assets	8,449	3,858	1,716	6,335	-	20,358	(30,447)	-	-
Less: assets held for resale	-	-	-	-	-	-	-	(3,101)	(5,046)
Less: disposals during the year	-	(137)	-	(2)	-	(139)	-	(1,672)	(3,987)
Balance, end of year	228,881	589,774	37,002	1,210,190	89,450	2,155,297	26,868	3,152,526	3,083,123
Accumulated Amortization									
Balance, beginning of year	96,763	352,301	10,222	441,166	36,204	936,656	-	1,235,530	1,168,103
Add: amortization	7,575	19,087	558	18,052	2,652	47,924	-	68,824	68,155
Less: accumulated amortization on disposals	-	(69)	-	-	-	(69)	-	(864)	(781)
Less: amortization on assets held for resale	-	-	-	-	-	-	-	-	53
Balance, end of year	104,338	371,319	10,780	459,218	38,856	984,511	-	1,303,490	1,235,530
Net Book Value of Tangible Capital Assets	\$ 124,543	\$ 218,455	\$ 26,222	\$ 750,972	\$ 50,594	\$ 1,170,786	\$ 26,868	\$ 1,849,036	\$ 1,847,593

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2021
(in thousands of dollars)

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation & Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2021</u>
Revenue										
Taxation	\$ 168,237	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ 1,293	\$ 1,690	\$ -	\$ 171,366
Fees and charges	19,799	13,179	14,493	3,618	30,942	21,814	19,765	18,506	69	142,185
Interest earned	8,612	-	-	-	-	184	827	225	1,692	11,540
DCC contributions	-	-	3,143	7,528	-	-	772	263	-	11,706
Government transfers	6,489	1,973	15,067	1,651	219	7,269	163	2,998	-	35,829
Other capital contributions	3,069	-	-	277	-	262	414	533	-	4,555
Gain on disposal of tangible capital assets	1,298	-	513	-	58	-	-	-	-	1,869
	<u>207,504</u>	<u>15,152</u>	<u>33,362</u>	<u>13,074</u>	<u>31,219</u>	<u>29,529</u>	<u>23,234</u>	<u>24,215</u>	<u>1,761</u>	<u>379,050</u>
Expenses										
Salaries and benefits	24,512	34,034	9,717	11,819	9,095	4,304	3,756	4,290	-	101,527
Contract and professional services	7,720	1,584	28,839	7,565	8,692	1,366	620	500	-	56,886
RCMP Contract	-	36,778	-	-	-	-	-	-	-	36,778
Materials and supplies	6,212	1,685	6,270	11,334	1,636	6,245	1,625	1,415	-	36,422
Equipment	671	386	3,361	1,794	2,540	10	854	784	-	10,400
Allocations	(7,069)	(145)	(216)	(193)	1,841	1,972	2,894	925	-	9
Cost recoveries	(1,449)	(2,690)	(9,610)	(147)	(1,457)	(609)	(240)	(636)	-	(16,838)
Grants and external transfers	2,668	84	5	1,777	390	-	-	9	-	4,933
Utilities	188	309	1,353	2,065	346	582	1,131	1,395	-	7,369
Loss on disposal of tangible capital assets	-	-	37	-	-	-	-	-	-	37
Write down of tangible capital assets	470	-	70	-	-	-	-	-	-	540
Amortization of tangible capital assets	5,543	1,885	26,752	8,087	2,297	7,544	10,429	6,287	-	68,824
Total before Debt	<u>39,466</u>	<u>73,910</u>	<u>66,578</u>	<u>44,101</u>	<u>25,380</u>	<u>21,414</u>	<u>21,069</u>	<u>14,969</u>	<u>-</u>	<u>306,887</u>
Debt interest and fiscal services	2,445	-	-	-	-	584	350	288	-	3,667
Total operating expenses	<u>41,911</u>	<u>73,910</u>	<u>66,578</u>	<u>44,101</u>	<u>25,380</u>	<u>21,998</u>	<u>21,419</u>	<u>15,257</u>	<u>-</u>	<u>310,554</u>
Annual Surplus (Deficit)	<u>\$ 165,593</u>	<u>\$ (58,758)</u>	<u>\$ (33,216)</u>	<u>\$ (31,027)</u>	<u>\$ 5,839</u>	<u>\$ 7,531</u>	<u>\$ 1,815</u>	<u>\$ 8,958</u>	<u>\$ 1,761</u>	<u>\$ 68,496</u>

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 & Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2020</u>
Revenue										
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>
Expenses										
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
Total before Debt	<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
Total operating expenses	<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>
Annual Surplus (Deficit)	<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 3 - Long Term Debt
For the Year Ended December 31, 2021
(in thousands of dollars)

Long term debt - General Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance December 31, 2020	Amount of Issue	Debt Balance December 31, 2021	Sinking Fund Balance December 31, 2021	Current Interest Rate
	Public Works					%
2022	Chapman Parkade	\$ 607	\$ 4,071	\$ 311	\$ 3,760	2.25
	Local Improvements					
2035	Lawrence Ave LAS	268	345	253	92	3.00
	Recreation and Cultural					
2021	Kokanee Gym Facility	38	500	-	500	1.75
2027	H2O Centre	12,145	27,500	10,607	16,893	2.25
2027	Kokanee Gymnastic	353	800	309	491	2.25
2028	H2O Centre	991	2,000	883	1,117	2.90
2035	Police Facilities	16,208	20,000	15,368	4,632	2.75
2035	Library Parkade Ext & Memorial Parkade	12,156	15,000	11,526	3,474	2.75
2036	Police Facilities	14,466	17,000	13,776	3,224	2.60
2037	Police Facilities	2,655	3,000	2,533	467	3.15
2038	Police Facilities	1,257	1,360	1,204	156	3.15
Total Debt - General Fund		\$ 61,144	\$ 91,576	\$ 56,770	\$ 34,806	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2021
(in thousands of dollars)

Long term debt - Wastewater Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2020</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2021</u>	<u>Sinking Fund Balance December 31, 2021</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2022	Spec. Area 22A - Gerstmar	\$ 6	\$ 40	\$ 3	\$ 37	0.65
2024	Spec. Area 21A - McKenzie Bench	384	1,350	295	1,055	2.25
2024	Spec. Area 22B - Vista Rd	23	80	17	63	2.25
2024	Spec. Area 22C - Hein Rd	76	266	58	208	2.25
2024	Spec. Area 22D - Elwyn Rd	42	149	32	117	2.25
2024	Spec. Area 22E - Dease Rd	27	96	21	75	2.25
2024	Spec. Area 22F - Mills Rd	97	342	75	267	2.25
2024	Spec. Area 29 - Campion Cambro	248	874	191	683	2.25
2024	Spec. Area 30 - Acland	104	364	80	284	2.25
2025	Spec. Area 20 - North Rutland	2,210	6,822	1,794	5,028	0.91
2025	Spec. Area 28A - Okaview	207	638	168	470	0.91
2028	Spec. Area 26 - Fisher Rd	1,001	2,021	893	1,128	2.90
2028	Spec. Area 34 - Country Rhodes	216	435	192	243	2.90
2028	Spec. Area 36 - Clifton	132	267	118	149	2.90
	Sewage Treatment Plant					
2031	Brandt's Creek Tradewaste Treatment	1,792	3,800	1,522	2,278	1.47
	Total Debt - Wastewater Fund	\$ 6,565	\$ 17,544	\$ 5,459	\$ 12,085	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2021
(in thousands of dollars)

Long term debt - Water Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2020</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2021</u>	<u>Sinking Fund Balance December 31, 2021</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2023	Spec Area 16 - Byrns	\$ 9	\$ 39	\$ 6	\$ 33	2.85
2024	Spec Area 18 - Lakeshore	7	24	5	19	2.25
2028	Spec Area 26 - Fisher Rd	147	297	131	166	2.90
2038	Local Area Service - Aspen Rd	44	48	42	6	3.20
	Water Improvement Programs					
2028	Cedar Creek Pump Station	3,754	7,577	3,346	4,231	2.90
2031	Poplar Point Pump Station Upgrade	1,290	2,000	1,195	805	1.47
	Total Debt - Water Fund	\$ 5,251	\$ 9,985	\$ 4,725	\$ 5,260	

Long term debt - Airport Fund

Debenture Debt

2025	Airport Expansion	\$ 4,072	\$ 7,500	\$ 3,312	\$ 4,188	2.75
2026	Airport Expansion	2,242	3,500	1,900	1,600	2.60
2026	Airport Expansion	1,905	3,000	1,611	1,389	2.10
2027	Airport Expansion	5,843	8,000	5,080	2,920	2.80
	Total Debt - Airport Fund	\$ 14,062	\$ 22,000	\$ 11,903	\$ 10,097	

Long term debt - Other

2021	Airport - 3770 Bulman road	\$ 900	\$ 4,500	\$ -		nil
2022	General Land - Diamond Mountain	2,450	6,900	1,225		nil
2023	General Land - Dewdney Park	2,214	2,952	1,476		nil
2029	Airport - Enterprise Rental Car Kiosk	67	73	59		nil
	Total Debt - Other	\$ 5,631	\$ 14,425	\$ 2,760		

Total City Long Term Debt

\$ 92,653	\$ 155,530	\$ 81,617
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CITY OF KELOWNA
Schedule 4 - COVID-19 Safe Restart Grant for Local Governments
For the Year Ended December 31, 2021
(in thousands of dollars)

The COVID-19 Safe Restart Grant was received from the Provincial Government in 2020. The schedule below provides disclosure of funds received, spent and remaining as well as any interest earned on unused funds. A balance at the end of the year represents unused funds received and is included in the General fund reserve.

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 5,403	\$ -
COVID-19 Safe Restart Grant received	-	7,884
Interest earned	28	-
Less funds used to support:		
Airport revenue losses	-	(500)
Gaming revenue losses	(2,436)	(1,517)
Corporate preparedness planning	(536)	(464)
Community services revenue losses	(743)	-
	<u>(3,687)</u>	<u>(2,481)</u>
Balance, end of year	<u>\$ 1,716</u>	<u>\$ 5,403</u>



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Memo



Date: April 28, 2022
To: Audit Committee
From: Financial Services Divisional Director
Subject: 2021 City of Kelowna Financial Health Indicators
Report Prepared by: Lewis Isle, Financial Analyst

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 2021. The report also provides comparative financial information for the year ended 2020 using Local Government data for Municipalities with greater than 100,000 population and for Local Governments in the region. Comparative financial information for 2021 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).

2021 Comparative figures for other local governments will be available in the fall of 2022 and will be included at next year's Audit Committee meeting.

As mentioned above, the current financial health indicators provide the Audit Committee with an overall picture of the City of Kelowna's financial position relative to other municipalities of similar size, as well as to other municipalities in the Okanagan region. While these comparisons provide beneficial information, it is important to note that the comparison to these other municipalities is not without its challenges. The difference between municipalities can sometimes be significant based on the services each municipality provides. To provide further value as to how the City of Kelowna is performing financially, benchmarks are included for certain financial indicators. There are no common benchmarks available due to the

considerable differences in municipal services, therefore these benchmarks have been tailored for the City of Kelowna and are based on factors such as industry standards, trends, and commonly acceptable ratios.

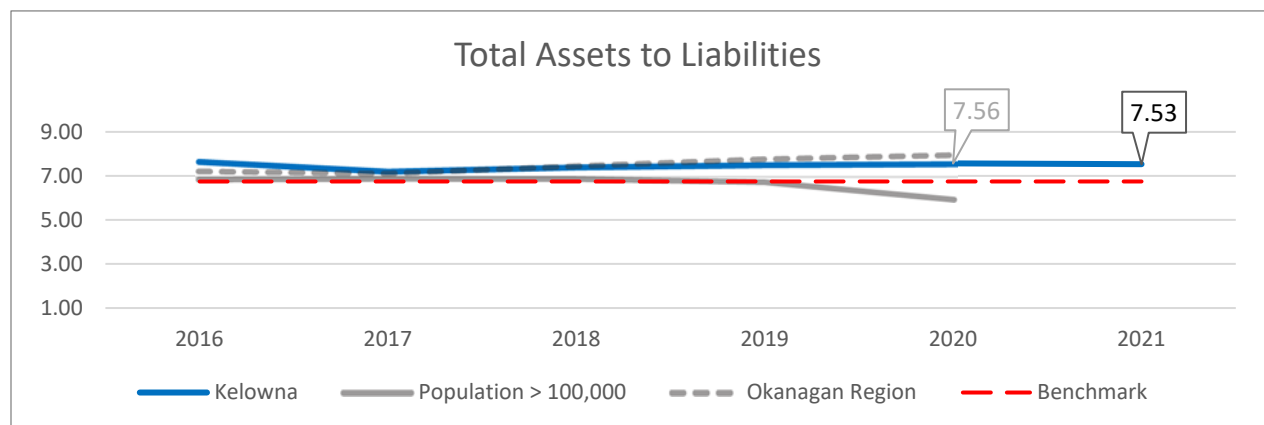
The financial health indicators outlined in this report provide a way to measure how decisions made during the year have affected the sustainability, flexibility and vulnerability of the City. They also link the financial results to the overall economic and fiscal environment that the City operates in.

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.

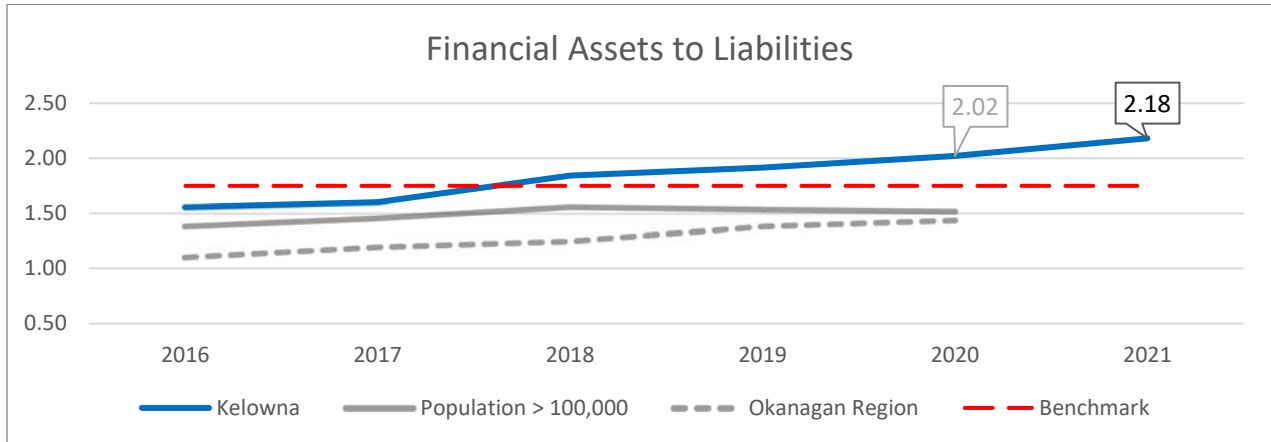
Indicator 1: Total Assets to Liabilities

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 2021 as both assets and liabilities slightly increased at a comparable rate from 2020.



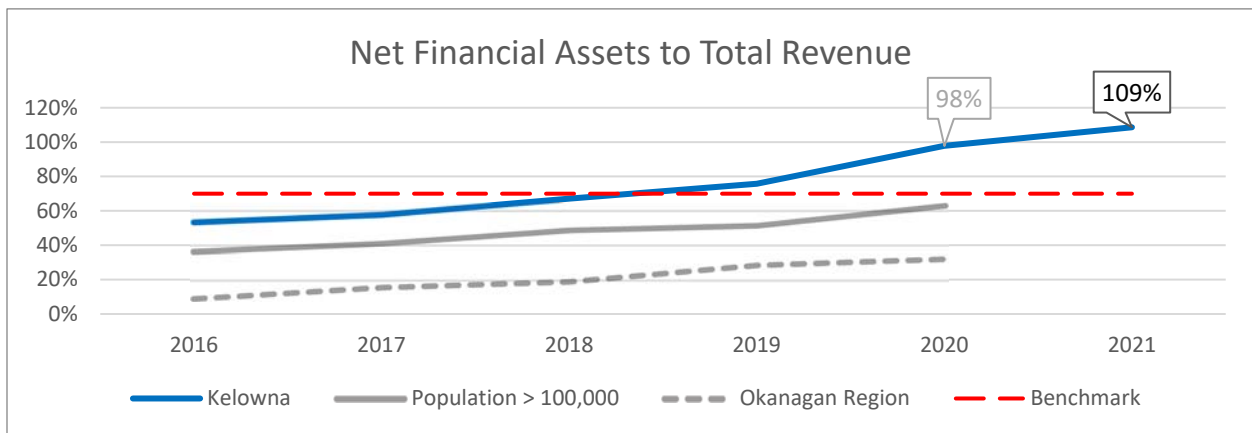
Indicator 2: Financial Assets to Liabilities

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 (\$81.3M) than that of financial liabilities (\$12.5M), driven mostly by the increase in cash and short-term investments.



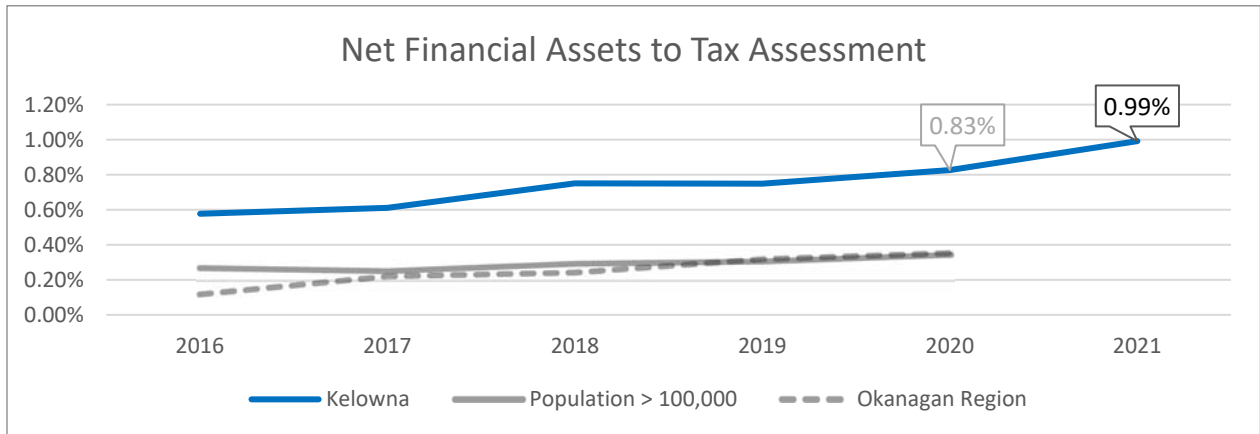
Indicator 3: Net Financial Assets (Financial Assets-Liabilities) to Total Revenue

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 98% in 2020 to 109% in 2021 was driven mostly by a larger increase of \$68.8M in net financial assets, and a smaller increase of \$28.7M in revenue.



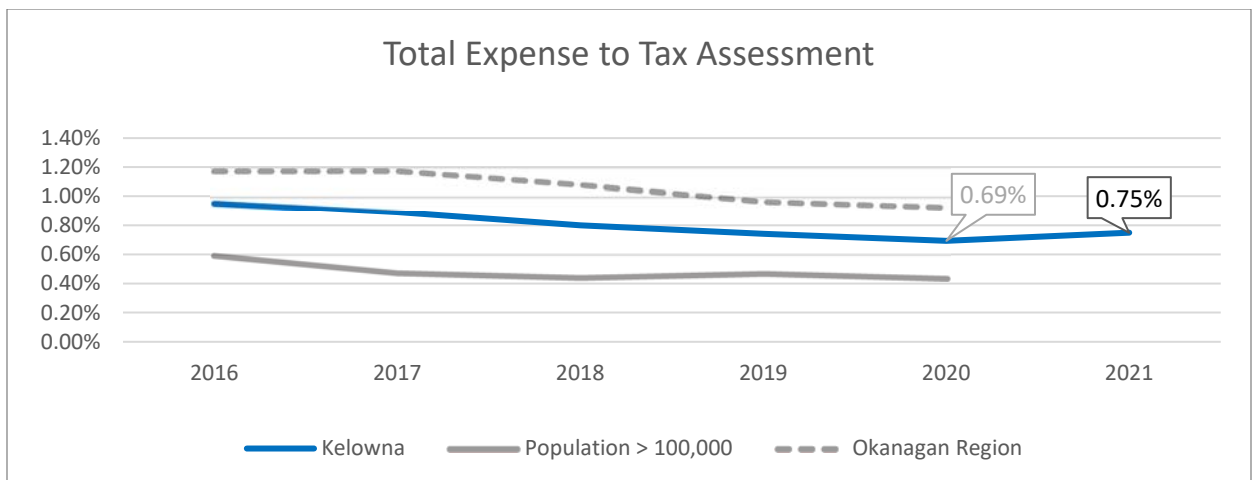
Indicator 4: Net Financial Assets (Financial Assets-Liabilities) to Tax Assessment

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 2018-2020 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 2021 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 the City has more net financial assets per tax assessment dollars than the other Municipalities. The increase from 2020 to 2021 was due to financial assets increasing at a greater rate than tax assessment values.



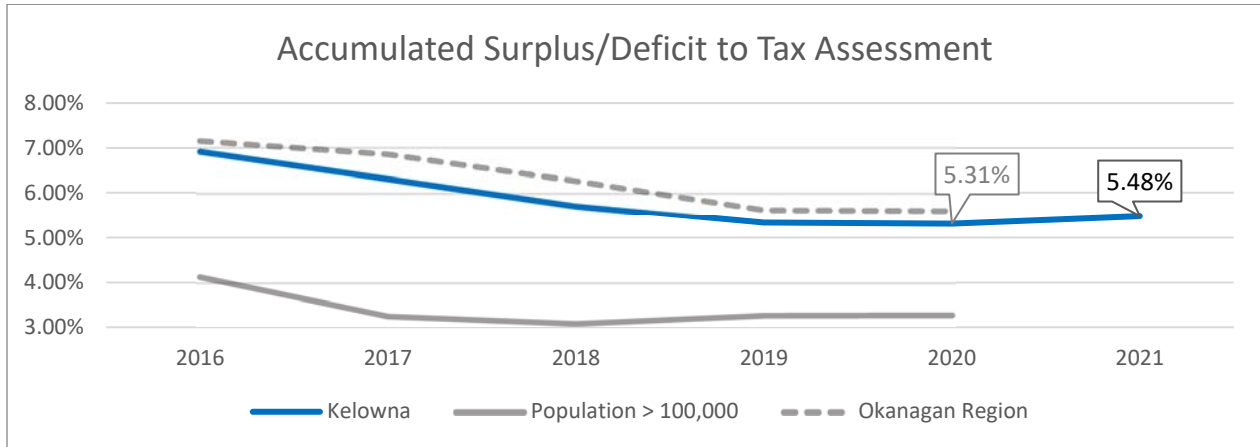
Indicator 5: Total Expense to Tax Assessment

Measures the ratio of spending relative to the tax base and the efficiency with which the City leverages increasing tax revenues. For 2021 this graph shows that the City's expenses remained relatively constant to the tax assessment and aligned with the change in the economy. The ratio remains relatively stable with a slight increase into 2021 due to an 8% increase in expenses over prior year, while property tax assessment only increased by 3%. The 2021 tax assessment information is based on July 2020 values. Increases in tax assessment values as of July 2021 will be presented in next year's financial indicators as 2022 tax assessment information. Considerable increases are expected.



Indicator 6: Accumulated Surplus/Deficit to Tax Assessment

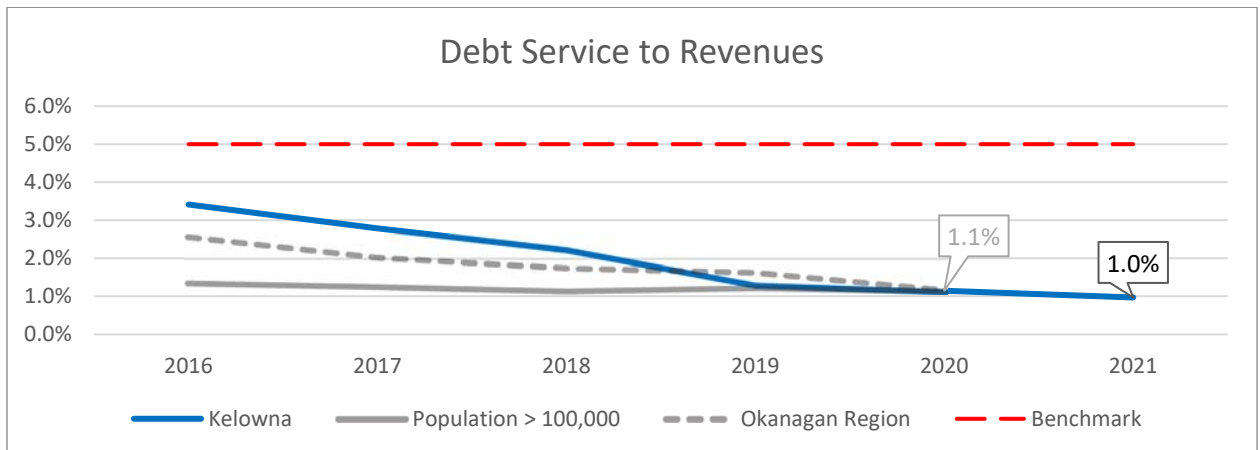
Measures the total economic resources available to provide future operations relative to the change in the economy measured through the change in tax assessments. The accumulated surplus/deficit includes the General, Airport, Wastewater and Water funds. After several years of downward trends, 2021 shows 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.

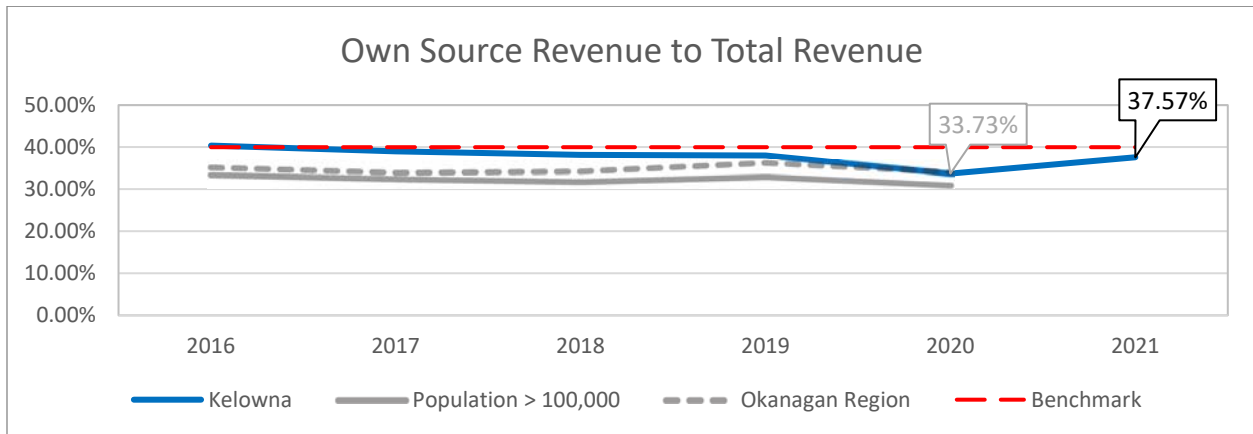
Indicator 7: Debt Service to Revenues

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 2020 1.1% of revenues were used to pay for debt service charges and that the amount remained relatively steady in 2021 at 1%. The graph also shows that the City's borrowing ratio is currently in line with other municipalities.

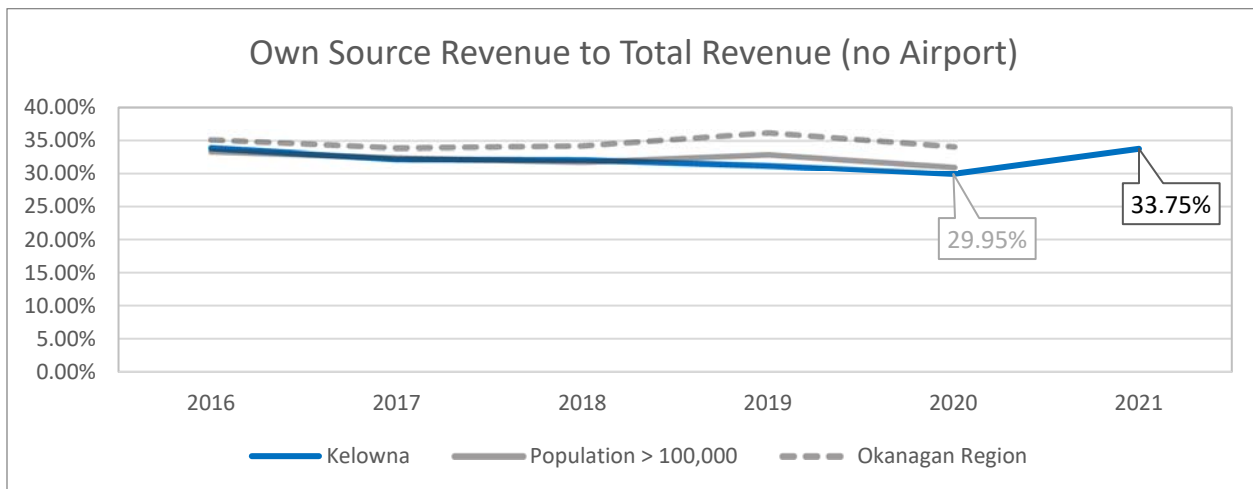


Indicator 8: Own Source Revenue to Total Revenue

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. In 2021 this ratio increased to 37.57%. 2021 was a standout year for new development, which meant significantly elevated development related revenues, also many sources of non-tax revenue slowly increased after COVID-19 public health restrictions and travel advisories were lifted.

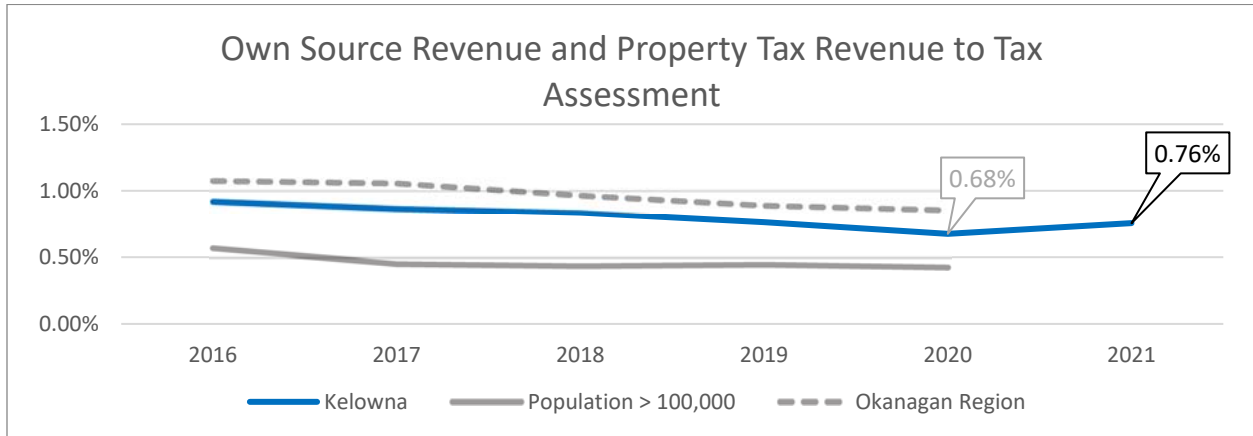


The graph below shows the same data, but with airport revenue removed. This measure gives a clearer comparative ratio as most British Columbia municipalities do not have a city-owned airport or the associated airport revenue. The trend is similar as above and we see an increase from 2020 to 2021. This graph shows that the rebound of revenues is along a similar trend without Airport revenues included as is with Airport revenues included. One interesting thing to note is that we have bounced back to be above pre pandemic levels of own source revenue in 2021 when we remove Airport revenues.



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

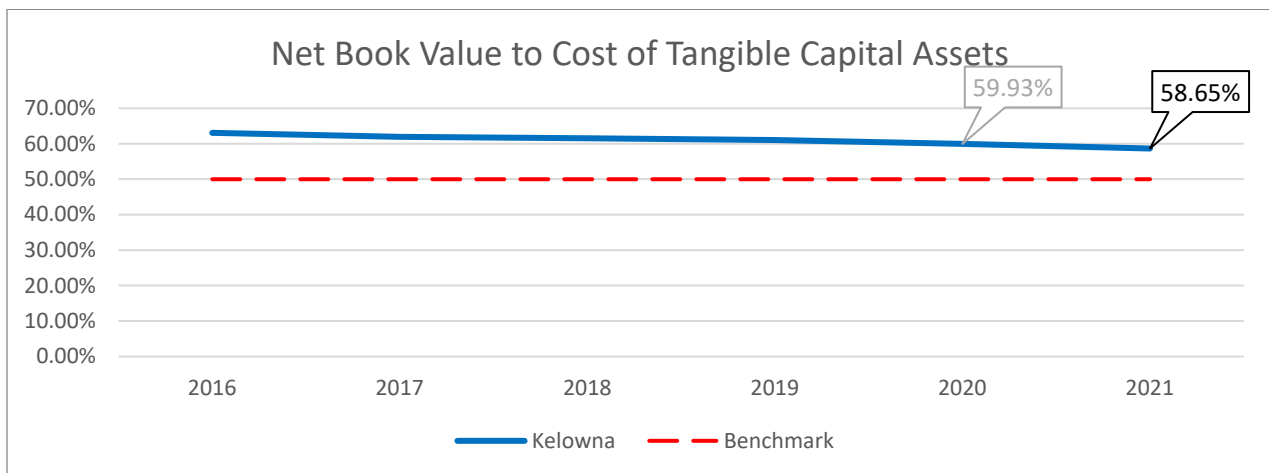
Measures the extent to which the City is taking income out of the economy either through taxation or user fees. For 2021 this graph shows that the City receives \$0.76 from own source revenue per \$1 of tax assessment. It also shows that the City receives more from own source revenues than Municipalities of a similar size and less than other Municipalities in the region as of December 31, 2020. The ratio increased slightly in 2021 due to increases 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 2021 this graph shows that tangible capital assets have 58.65% of their original cost left to be depreciated, or that the City has used 41.35% of its asset’s useful life.

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

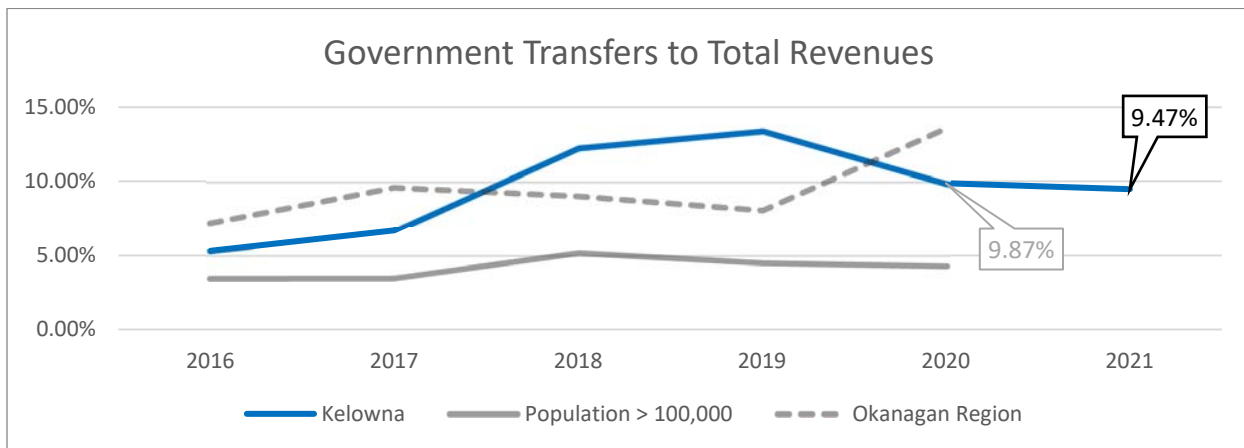


Vulnerability Ratio – Measures the degree to which a Municipality is dependent on sources of funding outside its control or influence or is exposed to risks that could affect its ability to meet existing financial obligations.

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. There is a slight decrease in this ratio from 2020 to 2021 which is a result of Government transfers increasing 4% but revenues increasing 8%.



Conclusion:

It is important to note and consider when making decisions around the above financial information that we are not comparing apples to apples in services and products between comparative municipalities. If the City shows significant differences, it may warrant further investigation.

The City's strong overall financial health is still rebounding after being challenged in many areas by the COVID-19 pandemic. In particular, the rebound of the Airport in 2021 contributed to improving the City's flexibility position. COVID-19 recovery has shifted from the pandemic challenges of facility closures to economic challenges. Significantly higher levels of inflation, supply chain disruptions and resourcing 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 will need to take these factors into consideration along with the financial strategies already in place.

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.

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

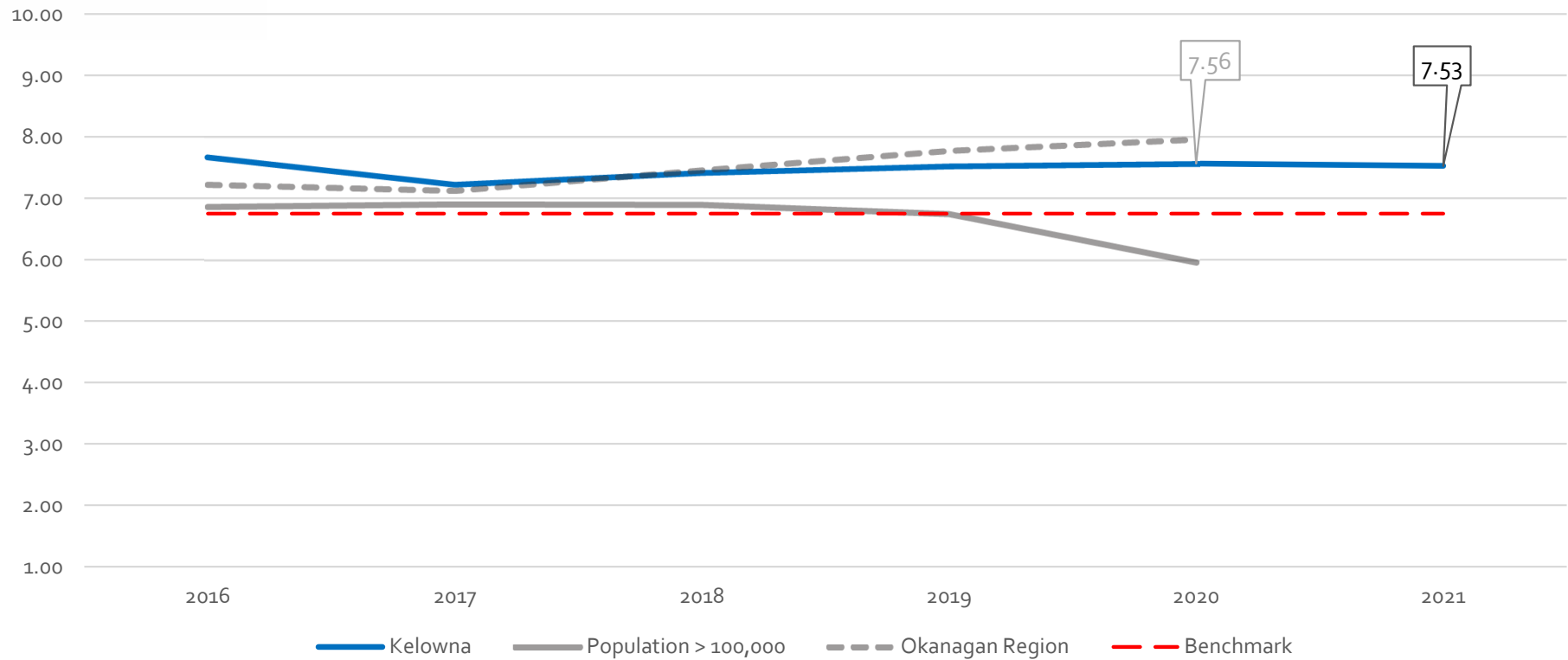
- ▶ Purpose of Financial Health Indicators
- ▶ Ratios measure Sustainability, Flexibility and Vulnerability
- ▶ City financial information is compared to Municipalities greater than 100,000 population and those in the Okanagan Region
- ▶ Addition of benchmarks for some ratios

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

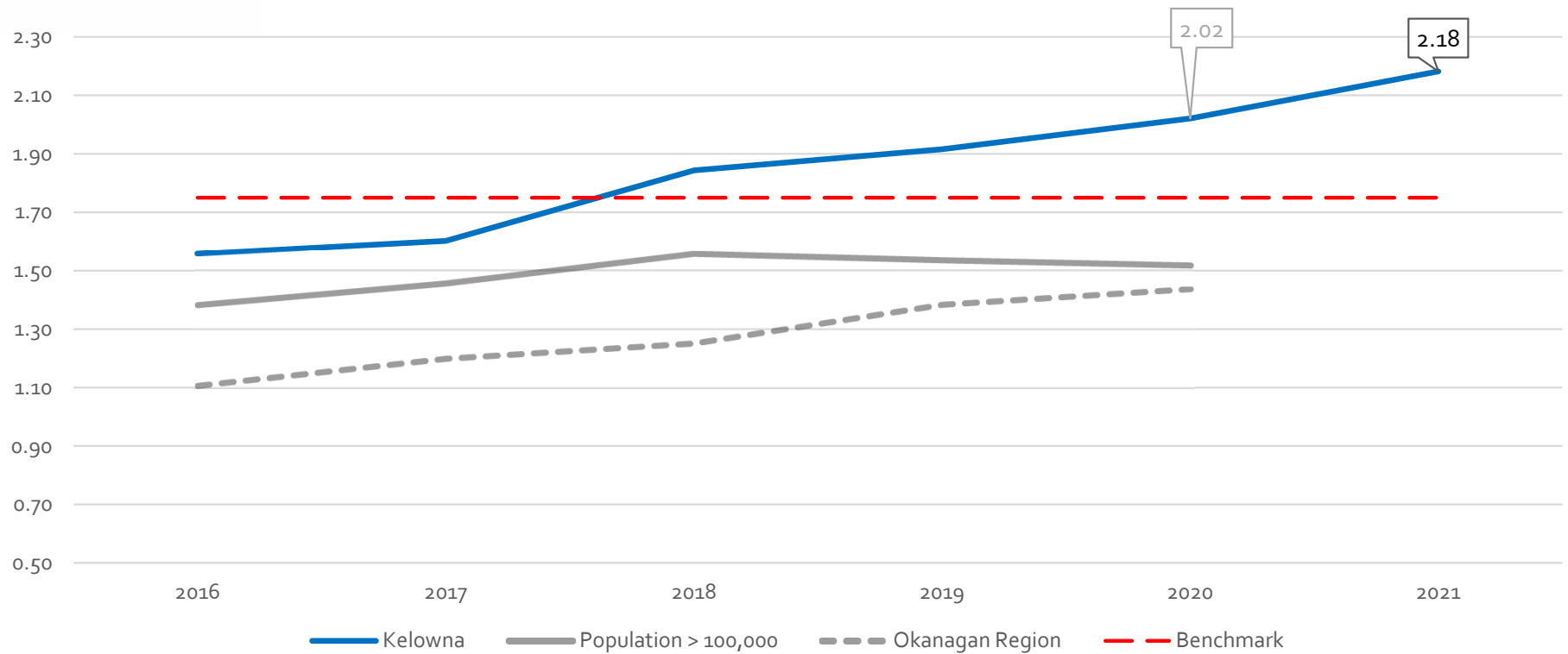
Total Assets to Liabilities





Sustainability

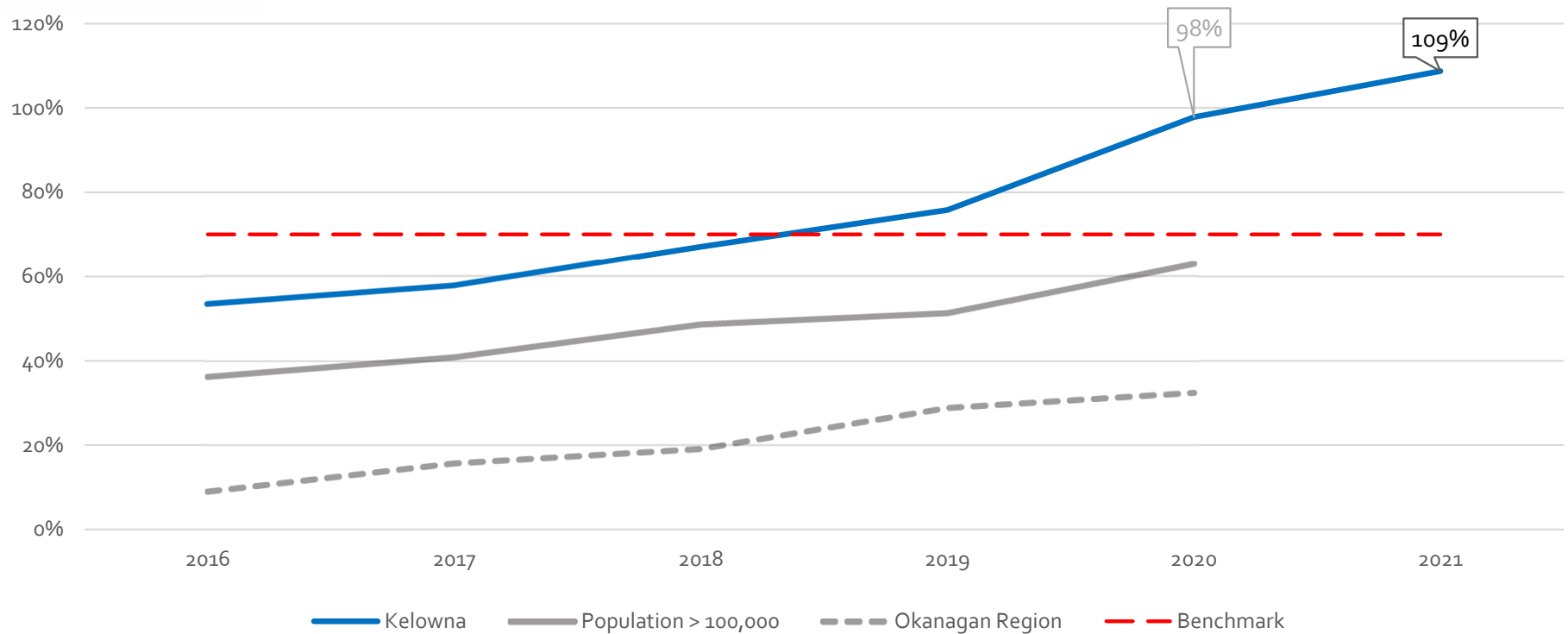
Financial Assets to Liabilities





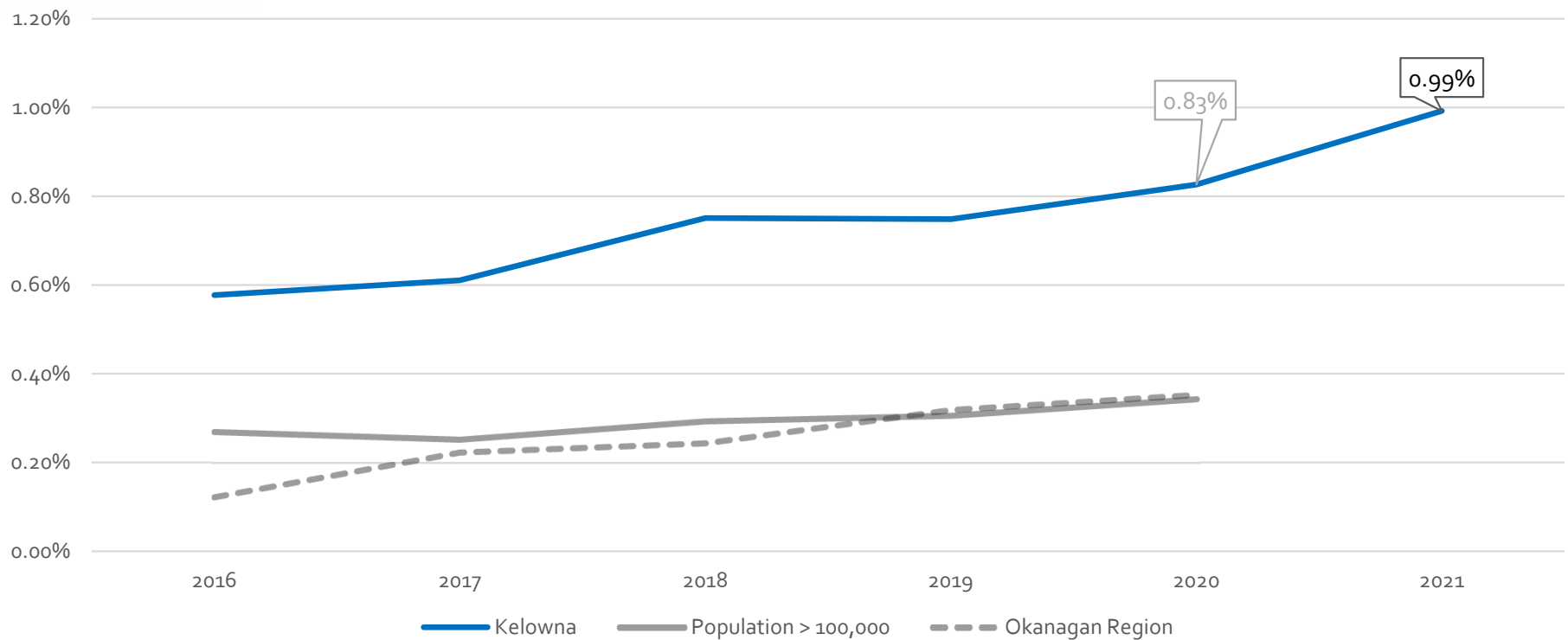
Sustainability

Net Financial Assets to Total Revenue



Sustainability

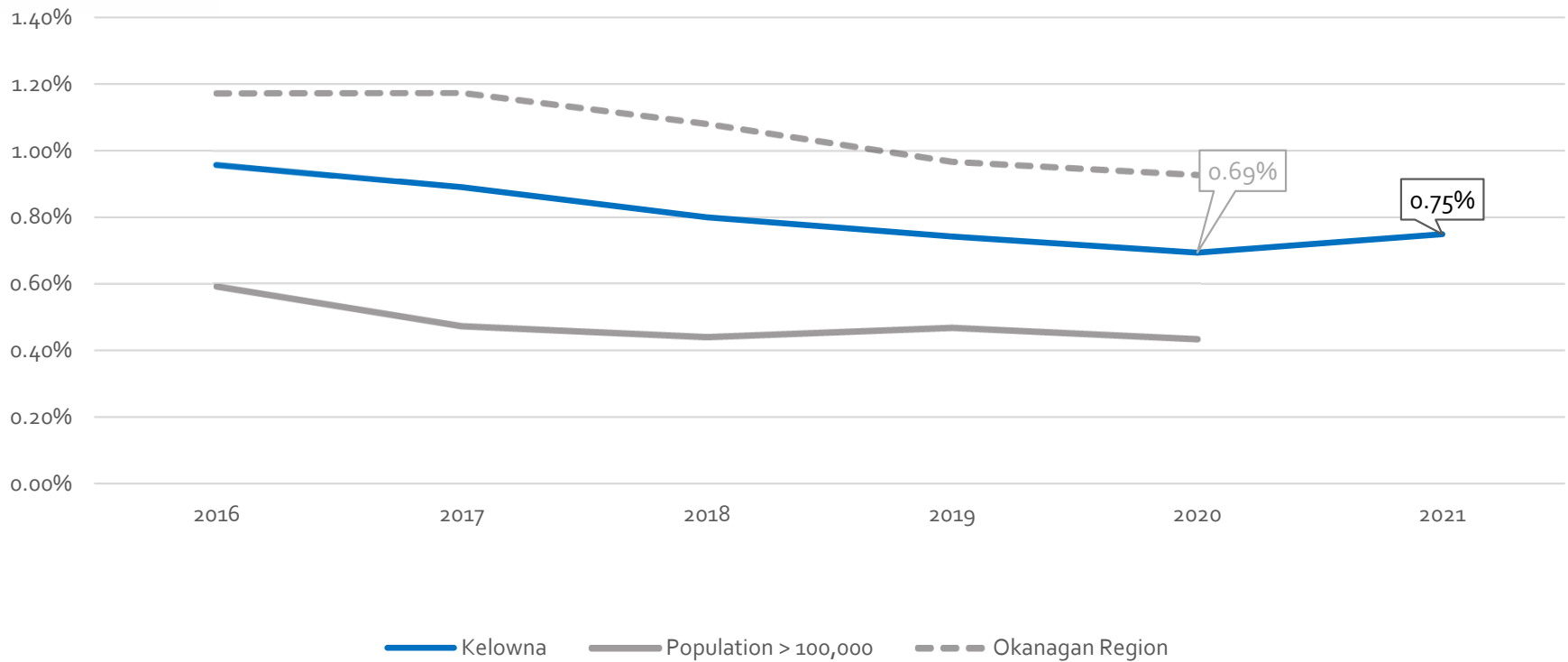
Net Financial Assets to Tax Assessment





Sustainability

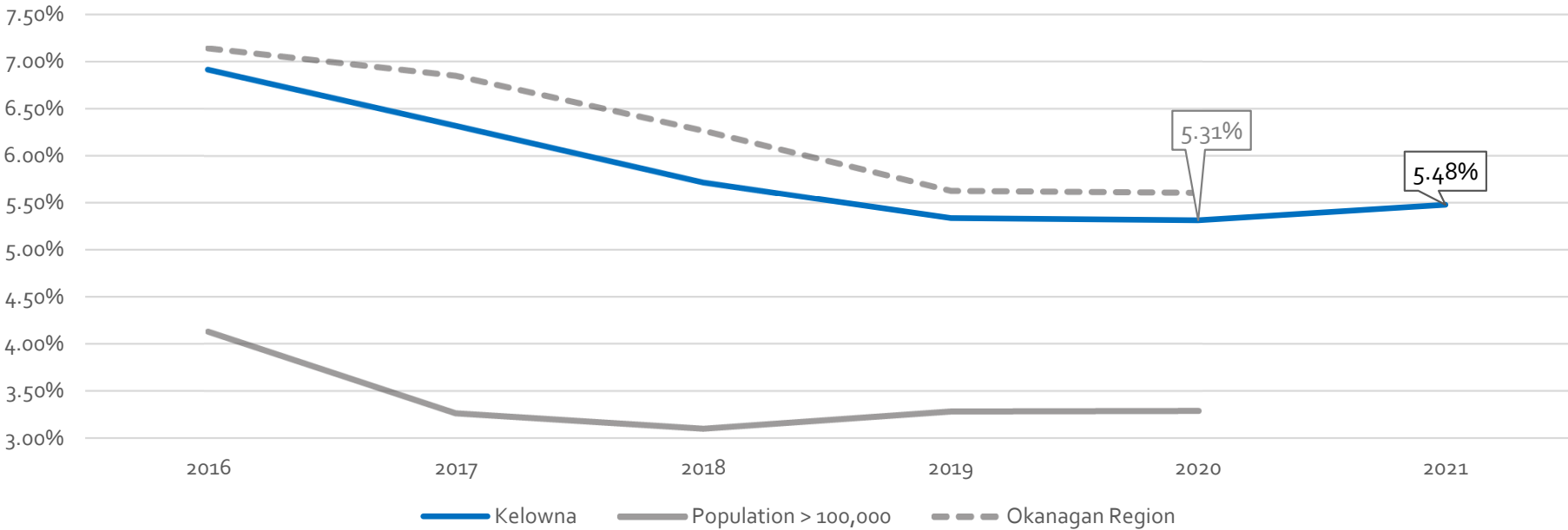
Total Expense to Tax Assessment





Sustainability

Accumulated Surplus/Deficit to Property Assessment



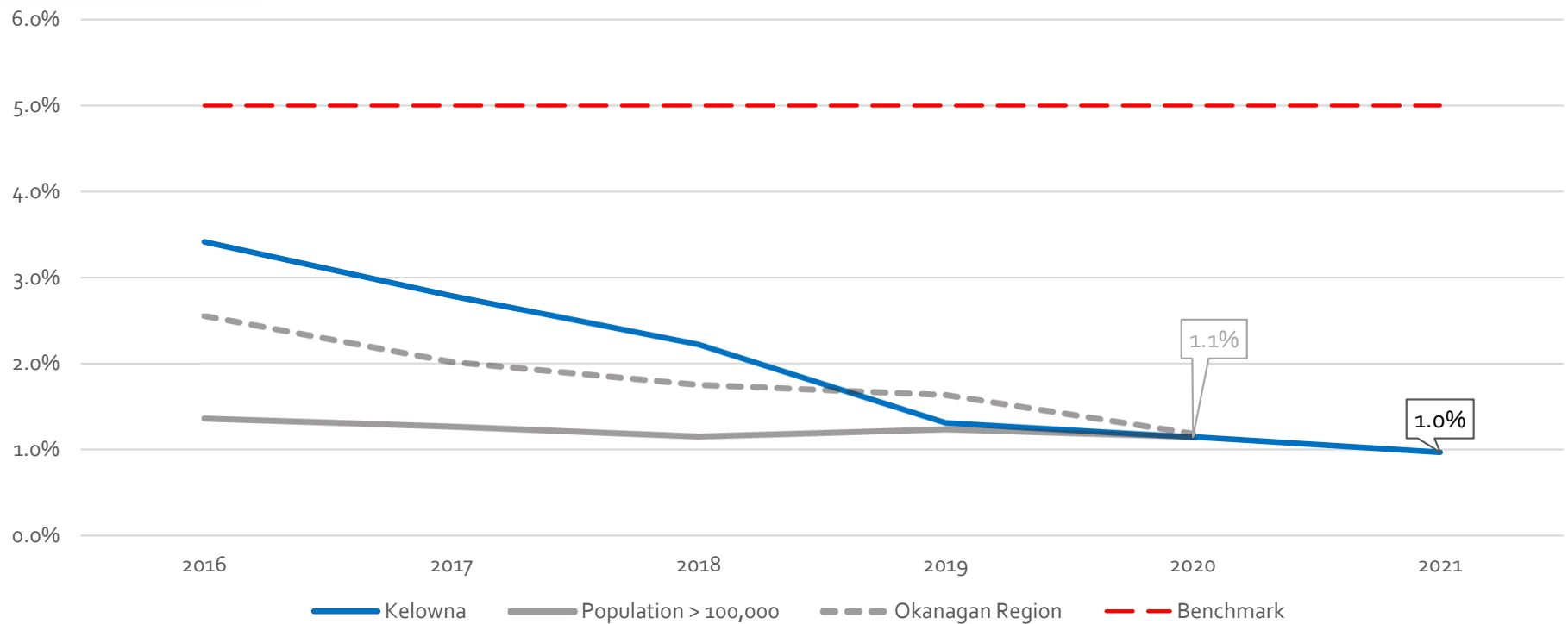
Flexibility Ratios

- ▶ 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

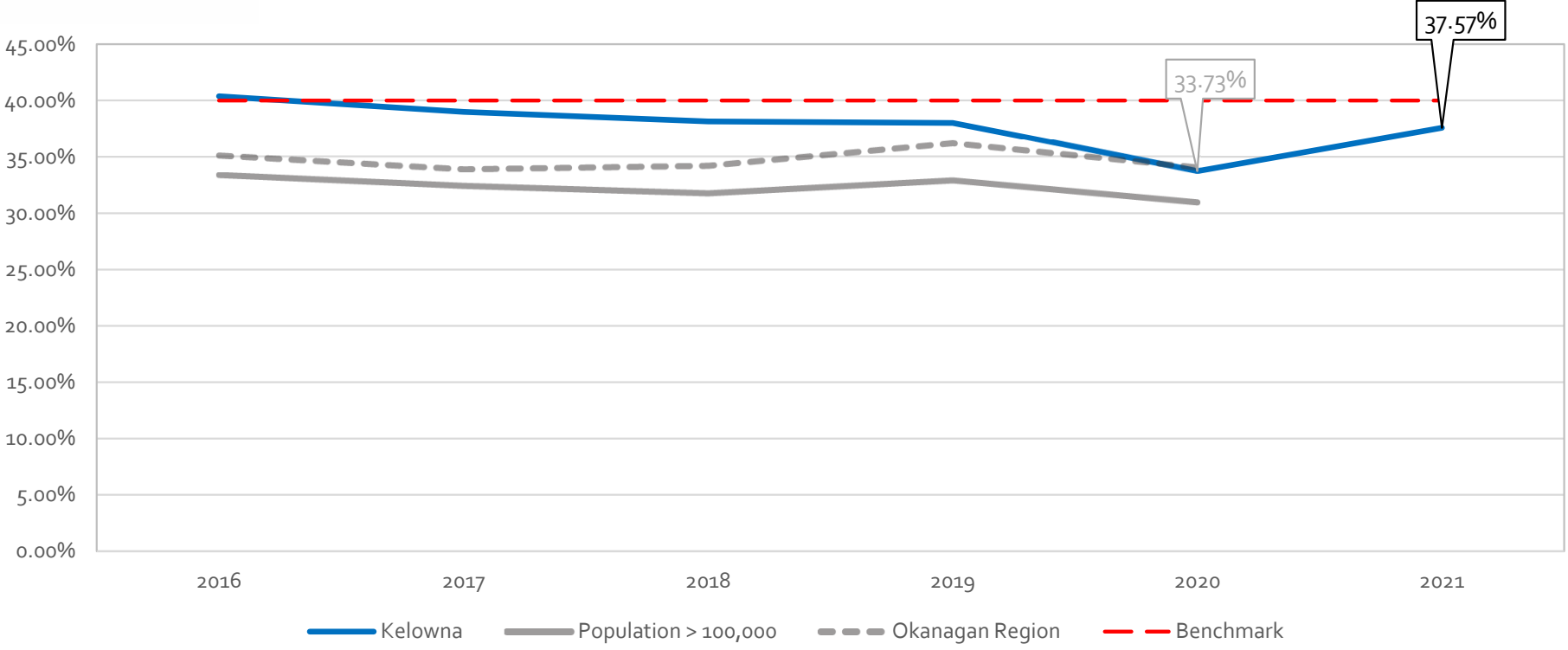
Debt Service to Revenues





Flexibility

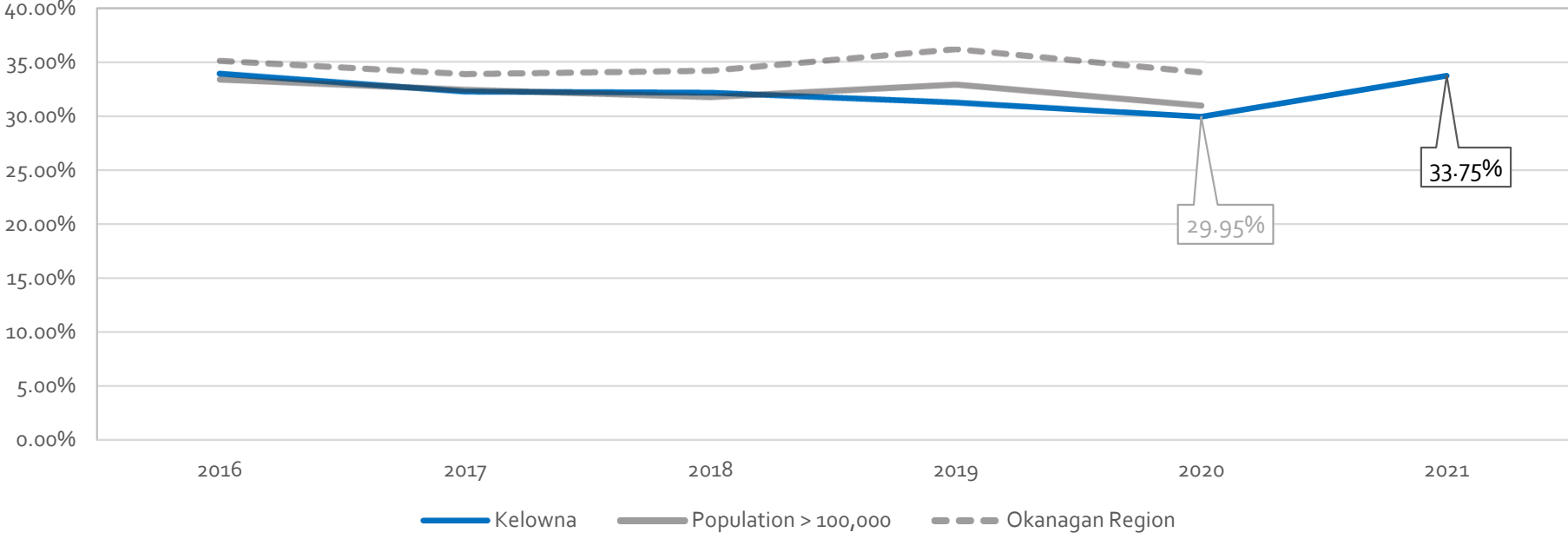
Own Source Revenue to Total Revenue





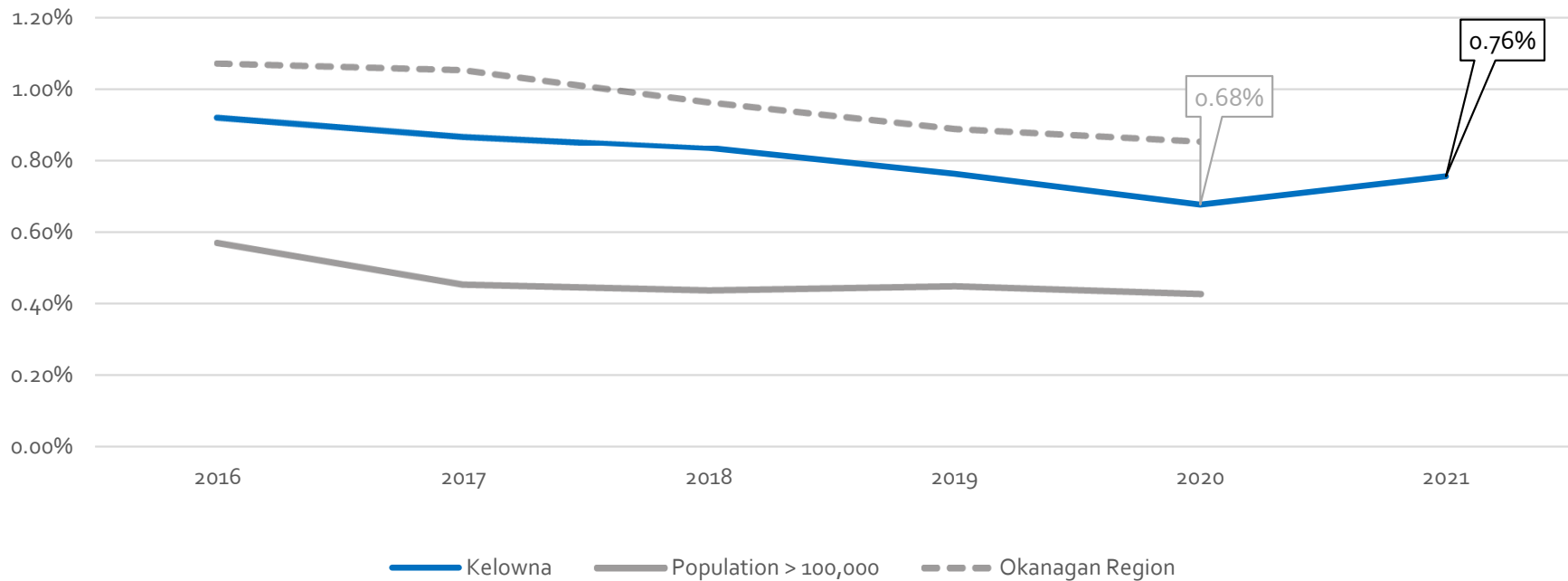
Flexibility

Own Source Revenue to Total Revenue (no Airport)



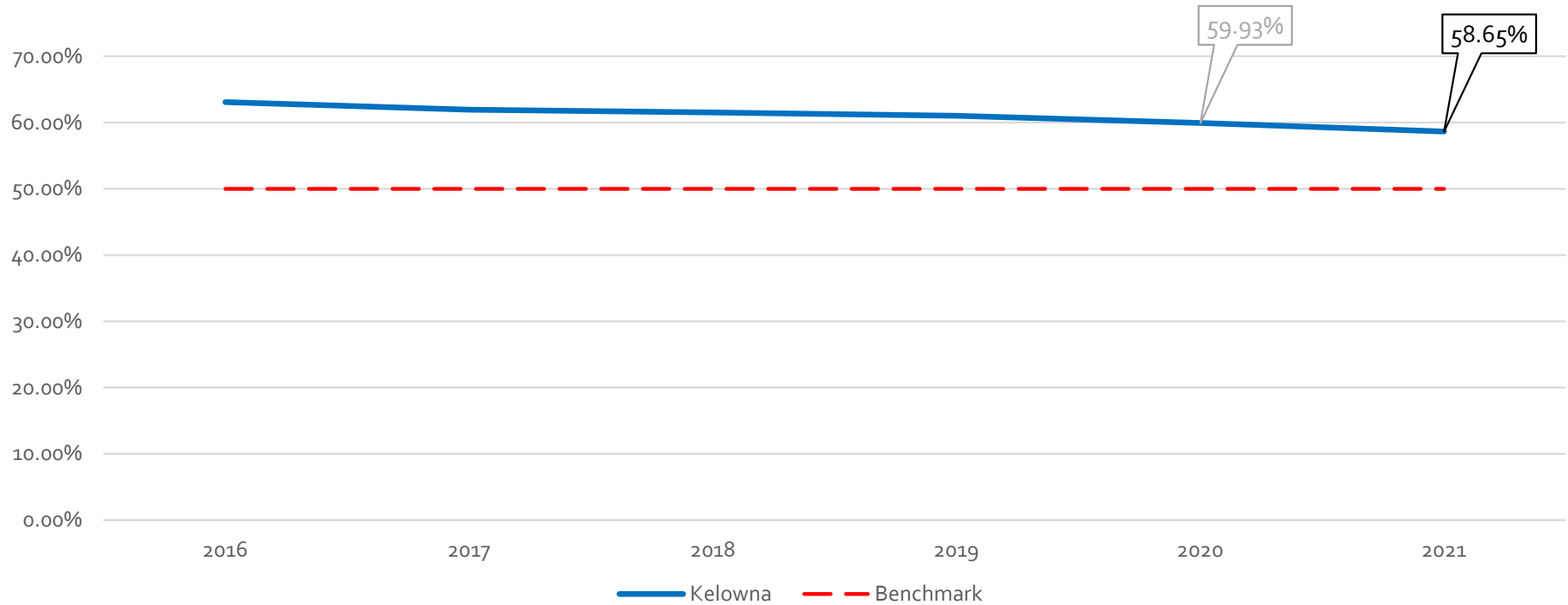
Flexibility

Own Source Revenue and Property Tax Revenue to Tax Assessment



Flexibility

Net Book Value to Cost of Tangible Capital Assets



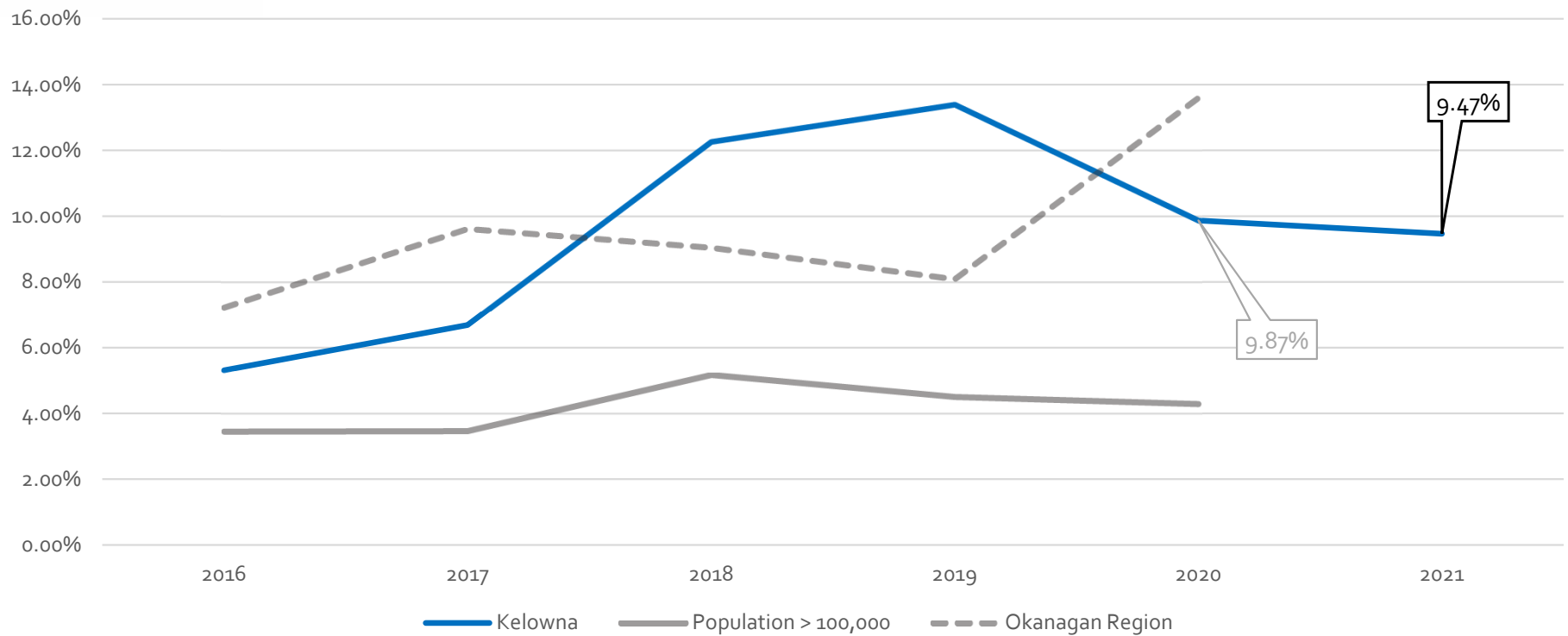
Vulnerability Ratios

- ▶ 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



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 28, 2022
File: 0605-01
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of 2021 Surplus and Reserves
Report Prepared by: Financial Planning Manager

The following information provides further details relative to the fiscal year 2021 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 "2021 Revenue - Expenditure Analysis".

2021 Operating Surplus

1. Summary of General Fund

- An unappropriated surplus of \$8.8M has been generated from current year's operations.
- The fund's accumulated surplus will be \$4.9M at the end of 2021, after distribution of the surplus to reserves. After the distribution, the balance will represent approximately 3% of the 2021 taxation demand.

Total surplus appropriated to reserve is \$8.7M as detailed in the City Manager's April 28, 2022 memorandum titled "2021 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 (\$2.1M)

- **Real Property Tax** revenue ended the year **\$149k over budget** due to mid-year changes in property assessment values which resulted in increased taxation.
- **Interest & Penalties** revenue ended the year **\$1.7M over budget** due to higher than budgeted interest revenue and Interest and penalties on late property tax payments.
- **Provincial revenue** was **\$142k over budget** mainly due to higher-than-expected traffic fine sharing revenue. This was partially offset by a reduction in Provincial PILT (Payment in lieu of taxes) revenue due to the reassessment of the Kelowna courthouse.

CITY ADMINISTRATION DIVISION

City Manager, Council, and Mayor under budget (\$155k)

- **City Manager** ended the year **under budget (\$95k)** due to staff vacancies with a corresponding reduction of employee related expenses. Contingency expense was under budget as these costs vary annually. Training and travel were under budget due to the ongoing impacts of COVID-19.
- **Council** ended the year **under budget (\$46k)** due to contingency expenses as these costs vary annually. Travel expenses were under budget due to the ongoing impacts of COVID-19.
- **Mayor** ended the year **under budget (\$14k)** due to multiple accounts with small variances.

CITY CLERK

City Clerk, Legislative Office and Records & Information over budget \$167k

- **City Clerk** ended the year **over budget \$237k** due to legal expense relating to various matters.
- **Legislative Services** ended the year **under budget (\$63k)** mainly due to staff vacancies and Contract services as these costs vary annually.
- **Records & Information** ended the year **under budget (\$6k)** due to multiple accounts with small variances.

INFRASTRUCTURE DIVISION

Infrastructure, Infrastructure Delivery, Infrastructure Engineering, and Integrated Transportation under budget (\$784k)

- **Infrastructure** ended the year **under budget (\$20k)** due to reduced expenses as a result of the ongoing impacts of COVID-19.
- **Infrastructure Delivery** ended the year **under budget (\$245k)** due to staff vacancies.
- **Infrastructure Engineering**
 - **Utility Planning** ended the year **under budget (\$28k)** due to professional and consulting services being under budget these costs vary annually. This was partially offset with salaries and wages being over budget due to staff charging less time to capital projects.
 - **Infrastructure Administration** ended the year **under budget (\$42k)** primarily due to salaries and wages being under budget due to staff time billed to capital projects. Materials and supplies were under budget due to less / minimal requirements and a planned software update that did not occur during the year.
- **Integrated Transportation**
 - **Integrated transportation** ended the year **under budget (\$145k)** due to staff vacancies.
 - **Kelowna Regional Transit** ended the year **over budget \$490k** due to Custom transit revenue under budget and costs over budget due to ongoing impacts of COVID-19.
 - **Strategic Transportation Planning** ended the year **over budget \$22k** due to salaries and wages relating to the Transit Master Plan.

- **Transit and Programs** ended the year **under budget (\$6k)** due to multiple accounts with small variances
- **Transportation Engineering** ended the year **over budget \$2k** due to multiple accounts with small variances

PLANNING & DEVELOPMENT DIVISION

Planning & Development Services, Development Planning, Business License, Development Services, and Policy & Planning under budget (\$5.5M)

- **Development Planning**
 - **Development Planning** ended the year **under budget (\$253k)** due to an unexpected increase in service revenue.
 - **Suburban and Rural Planning** ended the year **over budget \$107k** due to additional part time and casual wages needed to support increased development activity.
 - **Urban Planning Management** ended the year **under budget (\$130k)** due to staff vacancies.
- **Business License** ended the year **under budget (\$503k)** due to fee collection and processing improvements. Purchase services were under budget due to the short-term rental monitoring program not starting until mid-year.
- **Development Services**
 - **Development Services** ended the year **under budget (\$4.1M)** due to increased permits and inspections revenue from increased in development. The City issued building permits of over \$1B in construction value in 2021 compared to approximately \$500M in 2020.
 - **Building & permitting** ended the year **under budget (\$580k)** due to staff vacancies. Internal equipment charges were under budget as these are driven by staff levels. Copier use was under budget as more processes were done electronically. Postage and freight under budget due to outsourcing.
- **Policy & Planning** ended the year **under budget (\$39k)** due to staff vacancies.
- **Long Range Policy Planning** ended the year **over budget \$11k** due to multiple accounts with small variances

PARTNERSHIP & INVESTMENTS

Partnerships & Investments, Business & Entrepreneurial Development, Parks & Building Planning, Real Estate & Real Estate Services under budget (\$277k)

- **Partnerships & Investments** ended the year **over budget \$6k** due to multiple accounts with small variances.
- **Business & Entrepreneurial Development** ended the year **under budget (\$171k)** due to staff vacancies.
- **Parks & Buildings Planning** ended the year **under budget (\$98k)** due to the timing of project expenses and staff vacancies.
- **Real Estate & Real Estate Services** ended the year **under budget (\$51k)** due to staff vacancies.

- **Real Estate Services** ended the year **over budget \$5k** due to multiple accounts with small variances.
- **Strategic Land Development** ended the year **over budget \$33k** due to Professional fees relating to various development projects.

ACTIVE LIVING & CULTURE DIVISION

Active Living & Culture, Community & Neighborhood Services, Cultural Services, Recreation & Business Services and Sport & Event Services under budget (\$1.3M)

- **Active Living & Culture** ended the year **under budget (\$330k)** due to reduced activities from the ongoing impacts of COVID-19.
- **Community & Neighborhood Services** ended the year **under budget (\$349k)** due to reduced activities from the ongoing impacts of COVID-19.
- **Cultural Services** ended the year **under budget (\$12k)** due to multiple accounts with small variances.
- **Administration & Business Services** ended the year **under budget (\$91k)** due to staff vacancies and staff being redeployed to other departments. In addition, other activities were reduced from the ongoing impacts of COVID-19.
- **Sports & Event Services** ended the year **under budget (\$497k)** due to staff vacancies and staff being redeployed to other departments. In addition, other activities were reduced from the ongoing impacts of COVID-19.

CIVIC OPERATIONS DIVISION

Civic Operations, Civic Operations Finance & Administration, Building Services, Fleet Services, Parks Services, Public Works, and Utility Services over budget \$257k

- **Civic Operations**
 - **Civic Operations** ended the year **under budget (\$41k)** due to staff vacancies.
 - **Infrastructure Operations** ended the year **under budget (\$95k)** due to staff vacancies.
- **Civic Operations Finance & Administration** ended the year **under budget (\$53k)** due to staff vacancies and management charging to their time to capital projects.
- **Building Services** ended the year **under budget (\$223k)** mainly due to electrical and gas savings as operating capacity was reduced due to the ongoing impacts of COVID-19. In addition, the installation of energy efficient boilers and hot water tanks resulted in reduced expenses.
- **Fleet Services** ended the year **under budget (\$25k)** due to the reduction of use of the carshare program.
- **Parks Services** ended the year **over budget \$95k** due to multiple accounts with small variances.
- **Public Works** ended the year **over budget \$594k**. Snow & Ice control was over budget due to significant snowfall. Paved Oil Surface & Base Operations was over budget due to equipment rentals. This was partially offset by reduced salaries and wages. Surface & Fixture Construction Repair was over budget due to the extreme heat during the summer. Gravel Surface Operations was over budget due to increased service requests. Sweeping and Litter was over budget due to internal

equipment charges as well as salaries and wages. This was partially offset by Permit revenue being over budget due to the significant increase in development in the year.

- **Utility Services** ended the year **over budget \$5k** due to multiple accounts with small variances.

FINANCIAL SERVICES DIVISION

Financial Services, Corporate Finance, Financial Planning, Controller, Corporate Financial Support, and Purchasing under budget (\$611K)

- **Financial Services** ended the year **under budget (\$63k)** due to professional and consulting expense as these costs vary annually. Training and education was under budget due to the ongoing impacts of Covid-19.
- **Corporate Finance** ended the year **under budget (\$39k)** due to staff vacancies.
- **Financial Planning** ended the year **under budget (\$45k)** due to staff vacancies.
- **Controller** ended the year **under budget (\$311k)** due to staff vacancies, higher admin fee revenue from increased tax certificate user fees, and lower professional and consulting expense.
- **Corporate Financial Support** ended the year **under budget (\$170k)** due to staff vacancies.
- **Purchasing** ended the year **over budget \$17k** due to multiple accounts with small variances.

Debt & Other \$1.6M

- **Debt & Other** ended the year **over budget \$1.6M** mainly due to the salary vacancy factor that is in place to offset the timing of new staff hires throughout the organization. In addition, interest paid on prepaid taxes was under budget due to low interest rates. Contingency expense was under budget as the costs vary annually.

HUMAN RESOURCES & COMMUNITY SAFETY DIVISION

Human Resources, Corporate HR Services, Community HR Services, HR Programs & Systems, Compensation & Benefits, and Risk Management under budget (\$199k)

- **Human Resources** ended the year **under budget (\$31k)** due to legal expenses as these costs vary annually. Training expense, materials and supplies were under budget due to the ongoing impacts of COVID-19. These were partially offset by salaries and wages being over budget.
- **Corporate HR Services** ended the year **under budget (\$19k)** due to multiple accounts with small variances.
- **Community HR Services** ended the year **over budget \$1k** due to multiple accounts with small variances.
- **Compensation & Benefits** ended the year **under budget (\$4k)** due to multiple accounts with small variances.
- **Risk Management** ended the year **under budget by (\$147k)** mainly due to unbudgeted recoveries from third parties and insurance claims which vary annually there were also staff vacancies.

Community Safety, Bylaw Services, Police Services, Police Client Services, Police Quality Assurance, Crime Prevention, and Police Information Management under budget (\$693k)

- **Community Safety** ended the year **under budget (\$183k)** due to expenses being covered by the Strengthening Communities Grant as well as professional and consulting services being under budget as these costs vary annually.
- **Bylaw Services** ended the year **over budget \$82k** due to less revenue as fewer parking fines and illegal suite inspections were performed. Salaries and wages were under budget due to staff vacancies.
- **Police Services** ended the year **over budget \$108k** mainly due to the salary vacancy factor which is in place to offset the timing of new RCMP members. This was partially offset by gaming revenue being over budget due to casinos reopening and generating more revenue than budgeted. Service revenue was under budget as there were fewer prisoners and special events during the year due to the ongoing impacts of COVID-19. Salaries and wages were under budget due to staff vacancies. Contract services were under budget due to Federal invoices coming in under budget.
- **Police Client Services** ended the year **under budget (\$171k)** due to less prisoners and staff vacancies.
- **Police Quality Assurance** ended the year **under budget (\$163k)** due to staff vacancies. Repair parts were under budget due to a new vehicle being purchased which resulted in less repairs.
- **Police Facility Operations** ended the year **under budget (\$138k)** due to staff vacancies. In addition, Internal equipment charges and repair expenses were over budget due to the increase in RCMP members which resulted in additional desk installations. There were also one-time expenses including privacy slats for the fencing that surrounds the secure parking lot and the painting of the parking lot.
- **Crime Prevention** ended the year **under budget (\$143k)** due to staff vacancies. In addition, Volunteer programs were under budget as the programs were transferred to the RCMP.
- **Police Information Management** ended the year **under budget (\$85k)** due to staff vacancies.
- **Police Services Watch Support** ended the year **under budget (\$85k)** due to staff vacancies.

Fire Department, Fire Operations, Fire Communications & Emergency Management, EOC Operations & Hydrants, and Fire Admin, Training & Fire Prevention over budget \$150k

- **Fire Operations** ended the year **over budget \$20k** due to multiple accounts with small variances.
- **EOC Operations & Hydrants** ended the year **over budget \$99k** due to ineligible recoverable costs such as fringe benefits on City staff wages and internal equipment for staff seconded to the EOC. There were also other unrecoverable emergency expenses such those related to the crane incident.
- **Fire Admin, Training & Fire Prevention** ended the year **over budget \$32k** due to Salaries and wages as the budget was moved out of the cost center part way through the year but actual expenses remained.

CORPORATE STRATEGIC SERVICES DIVISION

Corporate Strategic Services, Information Services, Corporate Communications, Community Communications, Community Engagement, and Corporate Strategy & Performance, under budget (\$56k)

- **Corporate Strategic Services** ended the year **under budget (\$18k)** due to multiple accounts with small variances
- **Information Services** ended the year **over budget \$76k** due Salaries and wages as more time was charged to operating items as capital projects were delayed. Purchase services was over budget due to inflation and USD conversion. Communication lines and internet charges were under budget due to delayed projects. Materials and supplies were under budget due to a mapping project not being conducted in the year. Copier use was under budget due to staff working remote.
- **Corporate Communications** ended the year **over budget \$11k** due to multiple accounts with small variances
- **Community Communications** ended the year **under budget (\$25k)** due to multiple accounts with small variances
- **Community Engagement** ended the year **under budget (\$71k)** due to staff vacancies and unused salaries related to the public engagement for the Southeast Kelowna irrigation project that was completed during the year.
- **Corporate Strategy & Performance** ended the year **under budget (\$30k)** due to Professional and consulting being under budget due to project delays.

2. Summary of Utility Funds

AIRPORT FUND

The Airport's 2021 annual surplus before appropriations to reserve was \$7.5M. The accumulated general surplus is \$2.4M. During 2021, the Airport earned revenues of \$29.5M, which was \$8.7M more than was budgeted for 2021. The COVID-19 pandemic had a substantial, negative impact on YLW's business beginning in March 2020 and continuing until today. 2021 passenger numbers increased 13% when compared to 2020, decreased 59% when compared to 2019, and increased 62% when compared to what was budgeted for 2021. This \$8.7M increase between budget and actual was mainly due to the following variance from budget:

- Airport improvement fees \$3.6M
- Parking revenue \$1.4M
- Landing fees \$1.2M
- Terminal fees \$0.8M
- Car rental concession revenues \$0.5M
- Rental Revenue \$0.3M

During 2021, the Airport had operating expenditures of \$14.5M excluding amortization, which was \$1.5M less than budget. Expenditures came in under budget due to the continued, concerted effort to move strategic initiatives forward while keeping costs low to help mitigate the significant, negative impact of COVID-19. The largest reductions compared to budget were:

- Facility maintenance \$0.4M
- Salaries and wages \$0.3M
- Advertising and Media \$0.2M
- Fuel costs \$0.2M
- Professional & consulting services \$0.1M
- Security \$0.1M

WASTEWATER UTILITY FUND

The Wastewater Utility surplus from 2021 operations was \$3.5M which was \$1.7M more than the budgeted surplus of \$1.8M. The annual surplus was primarily due to the following items:

- Lower salaries and wages of (\$280k) due to staff leave & vacancies,
- Lower contract and purchase services of (\$195k),
- Remaining (\$833k) due to carryover of 2021 projects funded through the Wastewater reserve.

The accumulated surplus for the Wastewater Utility is \$68.0M. 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 2021 operations was \$2.6M which was \$2.6M higher than the budgeted deficit of \$87k. The annual surplus was primarily due to the following items:

- Higher Revenues of Water Sales of \$1.8M due to Heat Dome effect in the summer driving up consumption as well as new metered consumption revenues effect January 1st, plus Water Quality Enhancement increased \$478k from former Southeast Kelowna customers,
- Salaries and wages savings of \$247k due to vacancies and re-deployment of staff,
- Lower allocations of \$1.0M including \$590k from reduced internal expenditures at the conclusion of the multi-year Kelowna Integrated Water Project,

The favorable items above were partially offset by a \$1.4M increase to funding allocations including an additional \$478k to the Water Quality Enhancement Reserve and \$1.0M for the Southeast Kelowna Water Project Fee.

The accumulated surplus for the Water Utility is \$10.0M. 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 2021 year-end general and statutory reserve position on a comparative basis to 2020 is as follows in 000’s of dollars:

	<u>2021</u>	<u>2020</u>
General Reserves for Future Expenditures	\$123,633	\$118,036
Legacy Reserves	105,324	101,983
Statutory Reserves for Future Expenditures	114,522	97,129
Utility Reserves for Future Expenditures	<u>73,821</u>	<u>60,112</u>
Total Reserves	\$417,300	\$377,260
Less Multi-Purpose Commitment	<u>7,014</u>	<u>6,867</u>
Available Reserves	<u>\$410,286</u>	<u>\$370,393</u>

The increase in General and Statutory Reserves is primarily due to deferral of capital projects from 2021 into 2022, which results in project funding being carried forward in a Reserve.

The Legacy Reserves increased by \$3.3M primarily due to reinvestment of Fortis share dividends.

4. Utility Reserves for Future Expenditures - Increase of \$11.8M

Airport Reserves

The Airport reserves for future expenditure balance is \$34.4M, which is made up by the following reserve balances: \$12.9M Airport Improvement Fee, \$1.8M Airport Terminal, \$18.7M Airport Groundside, \$929k Airport Airside, and \$167k Airport Fringe Benefit. There was an overall fund increase of \$6M due to increased revenues compared to 2020. The reserve fund balances are committed for future capital projects identified as part of the airport long-term capital plan.

Wastewater Utility

The Wastewater Utility has a reserve for future expenditure balance of \$16.5M of which \$13M represents unspent budget funds which are earmarked for future use. The total reserve for future expenditure balance increased \$5.6M from 2021 due to carryover projects. These projects are anticipated to be completed in future years as some are completed over several years.

Water Utility

The Water Utility has a reserve for future expenditure balance of \$22.9M. This is an increase of \$2.1M which can be attributed to an overall decrease in unspent budget funds of \$1.8M, an increase to the SEKID water levy of \$1M and an increase to the Water Quality Enhancement of \$2.8M.

5. Deferred Development Cost Charges

The Development Cost Charge balance has increased by \$40.8M. Development Cost Charge revenues totaled \$50.8M while expenditures were \$11.7M. The consolidated closing deferred DCC balance was \$124.6M.

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 11, 2022 regular meeting.

G. Davidson, CPA, CMA

cc: City Manager
Grant Thornton – Tyler Neels

Memo



Date: April 28, 2022
Rim No. 0220-20
To: Audit Committee
From: City Manager
Subject: 2021 Surplus from Operations
Report Prepared by: Divisional Director Financial Services

Recommendation:

That the 2021 General Fund Surplus of \$8,786,918 generated from operating and capital programs be distributed as per the City Manager’s memo of April 28, 2022.

Purpose:

To provide the Audit Committee with a recommendation for the allocation of the 2021 General Fund surplus for contribution to reserve and accumulated surplus.

Background:

The 2021 year-end surplus is \$8,786,918. This is the total surplus that was generated from all General Fund operations in 2021 with the major sources being: development related revenues in excess of budget of \$5.5M and a surplus of \$1.3M related to Active Living and Culture due to fewer program offerings as a result of the COVID-19 pandemic and related provincial health mandates.

The following allocation of the 2021 surplus is recommended in order to minimize risk where unanticipated circumstances may arise during the year; maintain acceptable reserve levels; support Council priorities; and supplement the City’s capital program that was reduced in 2020 to help mitigate financial impacts of the COVID 19 pandemic.

Community Safety	\$ 1,000,000	Reserve for community safety emergent and one-time funding. Potential needs: legal opinions; operational funding related to encampments and downtown cleanup; protest and/or community unrest; and engagement.
Climate Action	\$ 1,000,000	To move forward climate related initiatives that are necessary to support this Council priority.

Major Recreation	\$ 3,300,000	To help fund, and reduce potential long term borrowing related to the proposed Kelowna Community Campus.
Building Repair	\$ 600,000	The City's civic buildings are aging and facility assessments have indicated a 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	\$ 500,000	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.
Land – Housing	\$ 1,000,000	To help fund purchases of land for the purposes of affordable housing.
Economic Impact Mitigation	\$ 800,000	The City is experiencing high levels of cost inflation. These funds will help to offset the impacts of this cost inflation.

The remaining balance of \$86,918 will flow to Accumulated Surplus. The Accumulated Surplus balance provides for a surplus level of approximately \$4.9M that is approximately 3% of the 2021 taxation requirement. This resulting accumulated surplus balance of \$4.9M 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 28, 2022. 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 be 'Doug Gilchrist', written over a horizontal line.

Doug Gilchrist
City Manager

cc: Controller,
Corporate Finance Manager,
Financial Planning Manager

Report to Council



Date: May 9, 2022
File: 0250-20
To: City Manager
From: Chair, Audit Committee
Subject: Financial Statements for the Year Ending December 31, 2021
Report Prepared by: Divisional Director, Financial Services

Recommendation:

THAT Council receives, for information, the Report from the Audit Committee dated May 9, 2022 with respect to the Consolidated Financial Statements and Auditor’s Report for the City of Kelowna for the year ending December 31, 2021;

AND THAT Council approves the appropriation of \$8,786,918 of surplus generated from all general fund operations in 2021 to reserves and accumulated surplus as detailed in the Report from the Audit Committee dated May 9, 2022;

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 \$8,786,918 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, 2021 was undertaken on April 28, 2022 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 2021 surplus generated from all general fund operations, in the amount of \$8,786,918 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 2021 of \$86,918 and an accumulated surplus balance of \$4.9 million.

The recommended appropriations to reserves are:

Community Safety	\$ 1,000,000
Climate Strategy	1,000,000
Major Recreation	3,300,000
Building Repair	600,000
Major Software Systems	500,000
Future Capital Projects	500,000
Land – Housing	1,000,000
Economic Impact Mitigation	800,000
Accumulated Surplus	86,918
	<u>\$8,786,918</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 \$8,700,000 will be transferred from surplus to reserves and \$86,918 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