

City of Kelowna
Open Audit Committee Meeting
AGENDA



Tuesday, April 25, 2023

1:00 pm

Knox Mountain Meeting Room (#4A)

City Hall, 1435 Water Street

	Pages
1. Call to Order - Chair	
2. Confirmation of Minutes - 2022 - Chair	3 - 5
April 28, 2022	
3. Financial Services Opening Remarks - Joe	
3.1 Financial Health Presentation - Joe	6 - 13
4. 2022 Airport Financial Statements	
4.1 Auditor's Report and Airport Financial Statement - Tyler Neels, Grant Thornton LLP	14 - 32
4.2 Memorandum - Review of Airport Financial Statements - Shayne	33 - 41
5. 2022 Consolidated Financial Statements	
5.1 Auditor's Report and Consolidated Financial Statements - Tyler Neels	42 - 49
5.2 Memorandum - Review of Consolidated Financial Statements - Matt	50 - 58
5.3 Notes to the Financial Statements and Supporting Schedules - Matt	59 - 84
6. Resolution Closing the Meeting to the Public - Chair	
THAT this meeting be closed to the public to Section 90(1)(l) of the Community Charter for Council to deal with matters relating to the following:	
• Annual Report	
7. Adjourn to Closed Session - Chair	
8. Reconvene to Open Session	

9.	2022 Financial Statements	
9.1	Memorandum - Audit Committee Review of 2022 Surplus and Reserves - Matt	85 - 91
9.2	Memorandum - 2022 Surplus from Operations - Joe	92 - 93
10.	Consideration of Financial Statements and Surplus Allocation - Chair	
10.1	Draft Report to Council - Audit Committee Review of 2022 Financial Statements and Recommendation	94 - 95
10.2	Adoption of Financial Statements, Surplus Allocation Recommendation and Report to Council	96 - 97
11.	Termination	



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

Date: April 28, 2022
 Location: Council Chamber
 City Hall, 1435 Water Street

Members Present Mayor Colin Basran, Councillors Gail Given and Luke Stack

Staff Present City Manager, Doug Gilchrist; City Clerk, Stephen Fleming; Divisional Director, Financial Services, Genelle Davidson; Corporate Finance Manager, Shelly Little

Staff participating Remotely Senior Airport Finance & Corporate Services Manager, Shayne Dyrdal*

Guest Tyler Neels, Auditor Grant Thornton

(* Denotes partial attendance)

1. Call to Order - Chair

Mayor Basran called the meeting to order at 1:07 p.m.

2. Confirmation of Minutes - Chair

Moved By Councillor Stack

R0001/04/28/22 THAT the Minutes of the Audit Committee Meeting of April 29, 2021 be confirmed as circulated.

Carried

3. Financial Services Opening Remarks

The Divisional Director, Financial Services provided opening remarks.

4. 2021 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 and Auditor's Airport Letter.

4.2 Memorandum - Review of Airport Financial Statements

Senior Airport Finance & Corporate Services Manager:

- Displayed a PowerPoint presentation.
- Financial Statements are for 2021.
- Spoke to impacts of the pandemic, which had started in 2020 and continued into 2021.
- Recovery took until 2021 Q4, passenger numbers increased in 2021 over 2020 but still well below pre-pandemic volume.
- Provided comments on the Airport Financial Statements, with an emphasis on the financial impacts due to the reduced numbers of passengers travelling in 2021 expenditures in 2020 and 2021 remained relatively consistent.
- Spoke to statement of cash flows and comments on the net increase in cash in 2021 over 2020.
- Responded to questions from Council.

Moved By Councillor Given

R0002/04/28/22 THAT the Audit Committee receive, for information, the 2021 Airport Financial Statements, dated April 28, 2022.

Carried

5. 2021 Consolidated Financial Statements

5.1 Auditor's Report and Consolidated Financial Statements

Tyler Neels, Auditor

- Spoke to the Auditor's Report
- Provided opening comments

5.2 Memorandum - Review of Consolidated Financial Statements

Staff:

- Displayed a PowerPoint presentation.
- Provided an overview of the Statements.

5.3 Notes to the Financial Statements and Supporting Schedules

Tyler Neels, Auditor

- Displayed a PowerPoint presentation.
- Provided highlights from the Notes to the Consolidated Financial Statements and Schedules.
- Responded to questions from the Audit Committee.

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.
- Responded to questions from the Audit Committee.

6. Resolution Closing the Meeting to the Public

Moved By Councillor Given

R0003/04/28/22 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 and took a break at 2:38 p.m.

8. Reconvene to Open Session

The meeting reconvened to an open session at 3:32 p.m.

9. 2021 Financial Statements

9.1 Memorandum - Audit Committee Review of 2021 Surplus and Reserves

Staff:

- Identified 2021 operating and utility surplus funds accumulations and expenditures.

9.2 Memorandum - 2021 Surplus from Operations

Divisional Director, Financial Services

- Spoke to 2021 Surplus from Operations memo dated April 28, 2022.
- Responded to questions from the Audit Committee.

Moved By Councillor Given

R0004/04/28/22 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 dated April 28, 2022.

Carried

10. Consideration of Financial Statements and Surplus Allocation

10.1 Draft Report to Council - Audit Committee Review of 2021 Financial Statements and Recommendation

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

Moved By Councillor Given

R0005/04/28/22 THAT the Audit Committee receives, for information, the Report from Financial Services and the City Auditor dated April 29, 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 recommends the Report be forwarded to Council;

AND THAT the Audit Committee recommends to Council the appropriation of \$8,786,918 generated from all general fund operations in 2021 to reserves and accumulated surplus as detailed in the Report from the City Manager dated April 28, 2022;

AND THAT the Audit Committee recommend to Council that the Consolidated Financial Statements and Auditor's Report for the City of Kelowna for the year ending December 31, 2021 be reprinted in and form part of the City of Kelowna's Annual Report.

Carried

11. Termination

The meeting was declared terminated at 3:55 p.m.



Measuring Financial Performance

Kelowna's Financial Health Measures – 2022 Year End

April 25th, 2023

Introduction

As local government leaders, it is important for us to understand the financial health of our city and how it impacts the delivery of services to our community both now, and into the future.








Categories

- **Financial Flexibility** – How much flexibility in the short term, without direct tax increases?
- **Financial Sustainability** – Do we have ability to maintain operations and services over the long term?
- **Competitiveness** – How do we fare financially on a per capita basis relative to similar municipalities and the region?

Financial Flexibility

How much room we have to move in the short term

	KELOWNA	COMPARATORS		
		BENCHMARK	Pop > 100K	OKANAGAN
Debt Service Ratio	 3%	<5%	4%	3%
Own Source Revenue	 38%	>40%	31%	35%
Gov Transfers Ratio	 9%	<10%	5%	11%

Financial Sustainability

The ability to maintain operations and services over the long term

	KELOWNA	COMPARATORS		
		BENCHMARK	Pop > 100K	OKANAGAN
Financial Assets/Liabilities	↑ 2.23	>1.75	1.65	1.45
Net Financial Assets/Revenue	↑ 110%	>70%	64%	33%
Accum. Surplus & Reserves/Expenses	↑ 161%	>100%	126%	68%

Competitiveness

How do we fare financially on a per capita basis

	KELOWNA	COMPARATORS		
		BENCHMARK	Pop > 100K	OKANAGAN
Municipal portion on Representative House (LGDE)	➔ \$2,579	TBD	\$2,847	\$2,149
Debt Per Capita	↑ \$474	TBD	\$808	\$560
Annual Surplus Per Capita	↑ \$606	TBD	\$672	\$315

Conclusion

Financial Flexibility

- Debt is low and decreasing relative to revenues.
- Own source revenues strong and improving over time (grants and partnerships).
- External sources of revenue forecasted to increase as strategic priority.



Financial Sustainability

- Financial Assets and Liquidity VERY strong on all measures.
- City showing incredible resilience coming out of challenging few years.
- Infrastructure deficit is future headwind. (Future Measure)



Competitiveness

- Kelowna is well positioned relative to similar sized cities.
- Fast growing population will improve per capita metrics quickly.
- Opportunity exists for maximization of annual revenues given surplus figures.



An aerial photograph of a suburban neighborhood at dusk. The houses have dark roofs and some have their lights on. In the background, a large body of water is visible, and further back, city lights and mountains are silhouetted against the twilight sky. The foreground shows tall grass on a hillside.

Questions?



2022

Financial Statements

Kelowna International Airport

Kelowna, British Columbia, Canada
For the year ended December 31, 2022



YLW
Kelowna
International
Airport

CELEBRATING
75
YEARS

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, 2022, 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, 2022, 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 Airport 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 14, 2023

Grant Thornton LLP

Chartered Professional Accountants

KELOWNA INTERNATIONAL AIRPORT

As at December 31, 2022
(in thousands of dollars)

	<u>Actual 2022</u>	<u>Actual 2021</u>
Financial Assets		
Cash and cash equivalents	\$ 5,215	\$ 4,989
Accounts receivable	11,426	6,605
Portfolio investments	38,540	28,397
	<u>55,181</u>	<u>39,991</u>
Liabilities		
Accounts payable	5,951	2,425
Performance deposits	929	218
Deferred revenue	525	435
Long term payable (Note 3)	393	743
Debenture debt (Note 4)	9,675	11,904
	<u>17,473</u>	<u>15,725</u>
Net Financial Assets	<u>37,708</u>	<u>24,266</u>
Non-Financial Assets		
Prepaid expenses	226	216
Inventory	328	368
Work in progress (Note 5)	13,075	7,922
Tangible capital assets (Note 6)	147,686	141,450
	<u>161,315</u>	<u>149,956</u>
Accumulated Surplus (Note 7)	<u>\$ 199,023</u>	<u>\$ 174,222</u>

Contingent liabilities and Commitments (Notes 8 and 9)



 Sam Samaddar
 Airport Director



 Joe Sass, CPA, CA
 Finance 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, 2022
(in thousands of dollars)

	Budget 2022	Actual 2022	Actual 2021
Revenue			
Sale of services (Note 11)	\$ 20,770	\$ 22,642	\$ 12,331
Interest earned	107	1,010	185
Government transfers (Note 12)	116	7,784	7,269
Actuarial increase	-	332	262
	<u>20,993</u>	<u>31,768</u>	<u>20,047</u>
Airport improvement fee (Note 10)	19,685	19,432	9,483
	<u>40,678</u>	<u>51,200</u>	<u>29,530</u>
Expenses (Note 13)			
Administration	5,253	4,246	4,009
Interest	584	584	584
Terminal operations	5,615	6,310	5,475
Airport improvement fee	-	5,499	4,884
Airport policing	183	183	162
Groundside operations	4,236	4,798	3,257
Airside operations	4,180	4,741	3,674
Write-down of tangible capital assets	-	38	-
	<u>20,051</u>	<u>26,399</u>	<u>22,045</u>
Annual Surplus	<u>\$ 20,627</u>	<u>24,801</u>	<u>7,485</u>
Accumulated Surplus, beginning of year		<u>174,222</u>	<u>166,737</u>
Accumulated Surplus, end of year		<u>\$ 199,023</u>	<u>\$ 174,222</u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2022
(in thousands of dollars)

	Budget 2022	Actual 2022	Actual 2021
Annual Surplus	\$ 20,627	\$ 24,801	\$ 7,485
Amortization of tangible capital assets	-	8,161	7,543
Acquisition of tangible capital assets	(80,852)	(19,588)	(5,926)
Write-down of tangible capital assets	-	38	-
Change in inventory and prepaid expenses	-	30	(267)
Increase (decrease) in Net Financial Assets	(60,225)	13,442	8,835
Net Financial Assets, beginning of year	24,266	24,266	15,431
Net Financial Assets, end of year	\$ (35,959)	\$ 37,708	\$ 24,266

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT

Statement of Cash Flows

For the Year Ended December 31, 2022

(in thousands of dollars)

	Actual 2022	Actual 2021
Net inflow (outflow) of cash and cash equivalents related to the following activities:		
Operating		
Annual surplus	\$ 24,801	\$ 7,485
Adjustment for non-cash items		
Amortization of tangible capital assets	8,161	7,543
Actuarial adjustment on debenture debt	(332)	(262)
(Increase) decrease in assets		
Accounts receivable	(4,821)	(4,552)
Inventory and prepaid expenses	30	(267)
(Decrease) increase in liabilities		
Accounts payable	3,526	(479)
Performance deposits	711	7
Deferred revenue	90	221
	<u>32,166</u>	<u>9,696</u>
Capital		
Acquisition of tangible capital assets	(19,588)	(5,926)
Writedown of tangible capital assets	38	-
	<u>(19,550)</u>	<u>(5,926)</u>
Investing		
Change in investments	(10,143)	690
Financing		
Decrease in long term payable	(350)	(350)
Repayment of mortgage payable	-	(900)
Repayment of debenture debt	(1,897)	(1,897)
	<u>(2,247)</u>	<u>(3,147)</u>
Net increase in cash and cash equivalents	226	1,313
Cash and cash equivalents, beginning of year	4,989	3,676
Cash and cash equivalents, end of year	\$ 5,215	\$ 4,989

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands 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 forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Airport deployed initiatives in order to protect the health and safety of its employees and customers, support its customers, and mitigate the impact of the crisis while ensuring continuity of its operations. As a result of the aforementioned conditions, the Airport saw a significant decrease in flights, passenger volumes and revenues in 2020, 2021 and 2022. Recovery commenced in 2022, but the Airport expects flights, passenger volumes and revenues to continue to be impacted beyond 2022 and, as of this time, it is difficult to assess the length or severity of the impact 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, 2022

(in thousands of dollars)

2. Significant accounting policies ()

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.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

2. Significant accounting policies ()

Liability for Contaminated Sites

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

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

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

There are no liabilities recorded as at December 31, 2022 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.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

3. Long-term payable

The Airport has arranged for payment terms beyond a year for certain payables amounting to \$393, as at December 31, 2022 (2021 - \$743). These payables will be paid in full by October 31, 2029 and are non-interest bearing.

4. 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	\$ 4,973	\$ 2,527	2025-10-02
9867	137	2.60	3,500	1,954	1,546	2026-04-19
9867	139	2.10	3,000	1,693	1,307	2026-10-05
9867	141	2.80	8,000	3,705	4,295	2027-04-07
			<u>\$ 22,000</u>	<u>\$ 12,325</u>	<u>\$ 9,675</u>	

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

2023	2024	2025	2026	2027
<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,897</u>	<u>\$ 1,258</u>	<u>\$ 698</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:

	2022	2021
Cash deposits held by MFA	\$ 252	\$ 245
Demand notes held by MFA	1,021	1,021
	<u>\$ 1,273</u>	<u>\$ 1,266</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

5. Work in progress

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

	<u>Land Improvements</u>	<u>Buildings</u>	<u>Infrastructure</u>	<u>Machinery & Equipment</u>	<u>Total 2022</u>	<u>Total 2021</u>
Cost						
Balance, beginning of year	\$ -	\$ 7,339	\$ 459	\$ 124	\$ 7,922	\$ 6,557
Add: additions during the year	69	5,215	116	9	5,409	1,628
Less: transfers to tangible capital assets	-	-	(193)	(63)	(256)	(263)
Balance, end of year	\$ 69	\$ 12,554	\$ 382	\$ 70	\$ 13,075	\$ 7,922

6. Tangible capital assets

	<u>Land</u>	<u>Land Improvement</u>	<u>Buildings</u>	<u>Infrastructure</u>	<u>Machinery & Equipment</u>	<u>Total 2022</u>	<u>Total 2021</u>
Cost							
Balance, beginning of year	\$ 16,557	\$ 13,276	\$ 65,406	\$ 89,450	\$ 57,032	\$ 241,721	\$ 237,160
Add: additions during the year	-	36	6,668	6,965	510	14,179	4,298
Add: transfers from work in progress	-	-	-	193	63	256	263
Less: write-down during the year	-	-	-	-	(38)	(38)	-
Balance, end of year	16,557	13,312	72,074	96,608	57,567	256,118	241,721
Accumulated Amortization							
Balance, beginning of year	-	8,976	31,183	38,856	21,256	100,271	92,728
Add: amortization	-	438	1,833	3,229	2,661	8,161	7,543
Balance, end of year	-	9,414	33,016	42,085	23,917	108,432	100,271
Net book value of tangible capital assets	\$ 16,557	\$ 3,898	\$ 39,058	\$ 54,523	\$ 33,650	\$ 147,686	\$ 141,450

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

7. Accumulated surplus

	Reserves for future expenditure	General surplus	Investment in tangible capital assets	2022 Total	2021 Total
Accumulated surplus, beginning of year	\$ 34,405	\$ 2,407	\$ 137,410	\$ 174,222	\$ 166,737
Annual surplus (deficit)	955	31,675	(7,829)	24,801	7,485
Transfers	21,879	(21,879)	-	-	-
Acquisition of tangible capital assets	(11,657)	(7,931)	19,588	-	-
Writedown of tangible capital asset	-	38	(38)	-	-
Retirement of debt	-	(1,905)	1,905	-	-
Accumulated surplus, end of year	<u>\$ 45,582</u>	<u>\$ 2,405</u>	<u>\$ 151,036</u>	<u>\$ 199,023</u>	<u>\$ 174,222</u>

8. 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, 2021, the plan has about 227,000 active members and approximately 118,000 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, 2021, indicated a \$3.8 billion funding surplus for basic pension benefits on a going concern basis.

The Airport paid \$377 (2021 - \$340) for employer contributions to the plan in fiscal 2022, while employees contributed \$313 (2021 - \$272) to the plan in fiscal 2022.

The next valuation will be as at December 31, 2024, with results available in 2025.

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, 2022

(in thousands of dollars)

8. Contingent liabilities ()

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.

9. Commitments

At December 31, 2022, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$6,627 (2021 - \$293).

10. 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, 2022, the City recognized \$19,432 (2021 - \$9,483), in airport improvement fee revenue.

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, 2022:

	<u>2022</u>	<u>2021</u>
Cumulative AIF revenue	\$ 188,670	\$ 169,238
Cumulative AIF expenditures	<u>185,314</u>	<u>172,664</u>
Surplus (deficiency) of revenue over expenditures	<u>\$ 3,356</u>	<u>\$ (3,426)</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

11. Sale of service by object

	<u>2022</u>	<u>2021</u>
Parking revenue	\$ 8,154	\$ 3,317
Airport landing fees	3,780	2,307
Airport terminal fees	2,997	1,723
Car rental concessions	3,286	1,643
Terminal concessions	739	346
Lease revenue	2,057	1,906
Other	1,629	1,089
	<u>\$ 22,642</u>	<u>\$ 12,331</u>

12. Government transfers

Due to the completion or progress of the projects there is a deferred revenue balance of \$411 in 2022 (2021 -\$nil) related to these grants.

The Airport received and recorded as revenue the following grants:

	<u>Type of grant</u>	<u>Project</u>	<u>2022</u>	<u>2021</u>
Federal Government	Restricted	Terminal Buildings - baggage handling operations	\$ 96	\$ 116
Federal Government	Restricted	Airport Critical Infrastructure Program	6,500	-
Province of British Columbia	Restricted	Child Care Capital Funding Program	1,100	-
Province of British Columbia	Restricted	Mass Timber Demonstration Program	88	-
Federal Government	Restricted	Regional Air Transportation Initiative	-	3,261
Federal Government	Restricted	Airport Relief Fund	-	3,097
Province of British Columbia	Restricted	Provincial COVID-19 Relief	-	720
Federal Government	Restricted	Western Diversification	-	75
			<u>\$ 7,784</u>	<u>\$ 7,269</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

13. Expenses by object

Expenses reported by object comprise:

	<u>2022</u>	<u>2021</u>
Amortization	\$ 8,161	\$ 7,543
Contract and professional services	7,285	5,292
Salaries and benefits	5,657	4,458
Materials and supplies	2,652	1,768
Policing and other Municipal services	1,379	1,819
Utilities	681	581
Interest expense	584	584
	<u>\$ 26,399</u>	<u>\$ 22,045</u>

14. 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	\$ 40,678
Expenses	
Operating budget	20,051
Capital budget	80,852
	<u>100,903</u>
Annual deficit per approved budget	(60,225)
Add: capital expenses	80,852
Annual surplus per statement of operations	<u>\$ 20,627</u>

15. Comparative figures

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

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2022

(in thousands of dollars)

16. Subsequent event

Subsequent to December 31, 2022, amendments were made to the Airport Critical Infrastructure Program grant agreements with the Federal Government, which resulted in 100% of qualifying expenditures made prior to December 31, 2022 being reimbursed rather than 50%. This resulted in \$1.6 million in grants being received earlier than anticipated.



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Memo



Date: April 25, 2023

To: Audit Committee

From: Joe Sass, Finance Director, Financial Services

Subject: Audit Committee Review of Kelowna International Airport's December 31, 2022 Audited Financial Statements

Report Prepared by: Shayne Dyrdal, Senior Airport Finance and Corporate Services Manager and Tegan Carruthers, 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 aggregate 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, 2022 and December 31, 2021.

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, 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 \$55.2 million ("M") exceeded its liabilities of \$17.5M by \$37.7M at December 31, 2022. As a result, the Airport has sufficient financial assets to settle its existing liabilities as at December 31, 2022. The Airport's net financial assets increased \$13.4M from \$24.3M at December 31, 2021 to \$37.7M at December 31, 2022, mainly due to a \$10.1M increase in portfolio investments, a \$4.8M increase in accounts receivable, and a \$2.2M decrease in debenture debt, which were partially offset by a \$3.5M increase in accounts payable.

Financial Assets

The Airport's financial assets have increased by approximately \$15.2M from \$40M at December 31, 2021 to \$55.2M at December 31, 2022 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 \$0.2M from \$5.0M to \$5.2M between December 31, 2021 and December 31, 2022. Further details on these movements are included under the discussion on the Airport's Statement of Cash Flows.

ii. Accounts receivable

The Airport's account receivables increased approximately \$4.8M from \$6.6M at December 31, 2022 to \$11.4M at December 31, 2022. This was mainly due to a \$6.4M accrual for Airport Critical Infrastructure Program grants, which were awarded and earned in 2022 but not received until 2023. This increase was partially offset by a one-time accrual that was made in 2021 for the \$3.3M Regional Air Transportation Initiative grant that the Airport earned. The remainder of the increase is mainly due to revenues being higher in 2022 than in 2021 as the Airport continued its recovery from the COVID-19 pandemic and passenger numbers increased from 830k in 2021 to 1.7M in 2022.

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 increased by \$10.1M between December 31, 2021, and December 31, 2022.

Liabilities

The Airport's liabilities have increased \$1.8M from \$15.7M at December 31, 2021 to \$17.5M at December 31, 2022, due to the movements outlined below:

i. Accounts payable

The Airport's accounts payable increased \$3.5M from \$2.4M at December 31, 2021 to \$5.9M at December 31, 2022 mainly due to a \$1.4M increase in holdbacks and \$1.8M in trade accounts payable. The increase in holdbacks and payables was due to more multi-year capital projects in 2022, as projects deferred during the COVID-19 pandemic have now commenced

ii. Performance Deposits

The Airport's performance deposits increased by \$0.7M from \$0.2M at December 31, 2021 to \$0.9M at December 31, 2022. This is mainly due to a \$0.5M deposit received for a new sublease for the hotel negotiated during 2022, and an airline security deposit of \$0.1M received from a new airline.

iii. Deferred revenue

The Airport's deferred revenue consists of cash received for services not yet provided with regards to grants, aircrew parking, shuttle and limo licenses, advertising, annual aircraft parking and leases. The Airport's deferred revenue increased \$0.1M from \$0.4 at December 31, 2021 to \$0.5M at December 31, 2022, mainly due to \$0.4M of grant funding received in advance for the Child Care Facility, which was partially offset as car rental revenues were overpaid in 2021 but were not overpaid in 2022.

iv. Long term payable

The Airport's long-term payable mainly consists of the 2020 municipal services and administration fees payable to the City of Kelowna (the Municipal Fee). Due to the significant, negative impact of the COVID-19 pandemic, \$1.0M of the \$1.5M 2020 Municipal Fee was deferred with payment to be made between 2021 and 2023. The \$0.4M decrease in the long-term payable between December 31, 2021, and December 31, 2022, is due to the annual payment made in 2021. The remaining \$0.4M payable represents the annual payment which will be made in 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 \$11.9M at December 31, 2021 to \$9.7M at December 31, 2022 was due to the repayment of principal associated with the debenture debt issued between 2015 and 2017.

Date of Issue	Term (Years)	Amount of Issue	Sinking Fund Balance	Net Debt at December 31, 2022
October 2015	10	7,500,000	4,973,000	2,527,000
April 2016	10	3,500,000	1,954,000	1,546,000
October 2016	10	3,000,000	1,693,000	1,307,000
April 2017	10	8,000,000	3,705,000	4,295,000
Total		\$22,000,000	\$12,325,000	\$9,675,000

Non-financial Assets

The Airport's non-financial assets have increased \$11.3M from \$150.0M at December 31, 2021 to \$161.3M at December 31, 2022 due to the movements outlined below:

i. Prepaid expenses

The Airport's prepaid expenses have remained at \$0.2M between December 31, 2021, and December 31, 2022.

ii. Inventory

The Airport's inventory consists of chemicals, fuel, and supplies. Inventory remained consistent between December 31, 2021, and December 31, 2022.

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 \$5.2M from \$7.9M to \$13.1M between December 31, 2021, and December 31, 2022, as many projects deferred due to the impacts from COVID-19 commenced during the year. Notable projects that were in progress at December 31, 2022 include the Airport Terminal Building Expansion (\$10.9M) and construction for the Child Care Facility (\$1.3M).

iv. Tangible capital assets

Tangible capital assets consist of land, land improvements, buildings, infrastructure, and machinery and equipment. The Airport's tangible capital assets increased \$6.2M from \$141.5M at December 31, 2021, to \$147.7M at December 31, 2022, due to additions of \$14.4M (transfer from work in progress represents \$0.3M), offset by the recognition of \$8.2M in amortization. The additions in 2022 included the Runway End Safety Area project (\$6.8M), Biosecurity Testing Facility (\$5.4M), and the roof replacement project (\$1.1M), all of which received grant through the Airport Critical Infrastructure Program.

Accumulated Surplus

The Airport's accumulated surplus increased by \$24.8M from \$174.2M at December 31, 2021 to \$199.0M at December 31, 2022. The Airport's cumulative revenues exceed its cumulative expenditures by \$199.0M as at December 31, 2022. This accumulated surplus has 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, 2022, and December 31, 2021. This statement provides a summary of the Airport's operations during 2022 and 2021.

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 2022 and does not include any transfers or amendments that were subsequently approved.

Annual surplus

The Airport had an annual surplus of \$24.8M for the year ended December 31, 2022, due to revenues of \$51.2M exceeding expenditures of \$26.4M. The Airport's annual surplus increased by \$17.3M between 2021 and 2022, as revenues increased by \$21.7M while expenditures increased by \$4.4M. 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 \$24.8M, as shown below.

	Year ended December 31, 2022
Annual surplus	\$ 24,801,000
Add: amortization	8,161,000
Less: conditional transfers (reimbursement of capital expenditures)	(7,784,000)
Less: actuarial increase for debenture debt	(332,000)
	\$ 24,846,000

Revenue

The Airport's revenues consist of sale of services, interest earned, transfers from the Government, and the actuarial increase. Total revenues increased by \$21.7M from \$29.5M to \$51.2M between 2021 and 2022. The COVID-19 pandemic had a significant, negative impact on the Airport's operations in 2020 and 2021, with recovery beginning in 2021 and continuing into 2022. As a result, passenger numbers increased from 830k in 2021 to 1.7M in 2022. 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 \$22.6M consist of vehicle parking revenues (\$8.2M), landing fees (\$3.8M), car rental fees (\$3.3M), terminal fees (\$3.0M), lease revenues (\$2.1M), other revenues

(\$1.6M), and terminal concessions (\$0.7M). Sale of services increased \$10.3M between the years ended December 31, 2021, and December 31, 2022, mainly due to a \$4.8M increase in parking revenues, a \$1.6M increase in car rental revenues, a \$1.5M increase in landing fees, and a \$1.3M increase in terminal fees.

ii. Interest earned

The Airport earned an additional \$0.8M of interest during the year ended December 31, 2022, compared to the year ended December 31, 2021, due to rising interest rates during the year.

iii. Government transfers

The Airport's grants from the federal and provincial government increased \$0.5M between the year ended December 31, 2021, and the year ended December 31, 2022, mainly due to the receipt of the Federal Airport Critical Infrastructure Program grants (\$6.5M), and Provincial Child Care Capital Funding Program (\$1.1M) grant received in 2022. This was partially offset by \$7.1M of one-time Federal and Provincial COVID-19 relief grants that were earned in 2021.

iv. Actuarial Increase

The actuarial increase for the Airport's debenture debt increased \$0.1M between the years ended December 31, 2022, and December 31, 2021.

v. Airport improvement fees

The Airport earned \$9.9M more in airport improvement fees (AIF) during the year ended December 31, 2022, than the year ended December 31, 2021. This is due to a 104% increase in enplaned passengers in 2022 when compared to 2021 as travel restrictions eased.

Expenses

The Airport's expenses consist of administration, interest, terminal operations, AIF, policing, groundside operations, airside operations and the write-down of tangible capital assets. Total expenses increased by \$4.4M from \$22.0M to \$26.4M between the years ended December 31, 2021, and December 31, 2022. 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. With recovery beginning in 2021 and continuing in 2022, the Airport started to return to normal operations and corresponding costs. Further details are outlined in the following:

i. Administration

Administration expenditures increased by \$0.2M between the years ended December 31, 2021, and December 31, 2022. Administration expenditures include the Municipal Fee which decreased \$0.4M from \$1.6M in 2021 to \$1.2M in 2022. The remaining administration expenditures increased \$0.6M from \$2.4M for the year ended December 31, 2021, to \$3.0M for the year ended December 31, 2022. The increase in administration expenditures was due to an increase in wages and salaries of \$0.3M, and an increase in administrative recoveries of \$0.2M relating to contributions received for the YLW 75th Anniversary events in 2022.

ii. Terminal expenditures

Terminal expenditures consist of expenditures associated with the operation and maintenance of the Airport's terminal building. Terminal expenditures increased by \$0.8M between 2021 and 2022 from \$5.5M to \$6.3M. This is due to increased operations as post-pandemic recovery continued in 2022 and operational costs increased as a result of resuming full operations, including facility maintenance returning to full contract service levels (\$0.6M increase in 2022).

iii. Airport Improvement Fee expenditures

iv. Airport Improvement Fee expenditures increased \$0.6M from \$4.9M in 2021 to \$5.5M in 2022 due to an increase in amortization expense (\$0.6M) resulting from the completion of projects in 2022 including the biosecurity facility, runway end safety area construction, terminal building improvements, airside pavement rehabilitation, and passenger loading bridge upgrades and refurbishment.

v. 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 increased by \$1.5M between 2021 and 2022 from \$3.3M to \$4.8M. The increase is mainly due to the change in the parking management contract that resulted in the Airport earning all of the revenues and paying for all of the expenditures (\$1.0M) in 2022, rather than earning a percentage of gross revenues and incurring no expenditures.

vi. 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 increased by \$1.0M from \$3.7M in 2021 to \$4.7M in 2022. The increase is mainly due to increased operations as post-pandemic recovery continued in 2022 and operational costs increased as a result of resuming full operations. Wages and salaries for airside operations increased \$0.5M in the year, from \$1.1M in 2021 to \$1.6M in 2022.

When expenditures are assessed for the Airport rather than by business segment, expenditures by type increased between 2021 and 2022, as outlined below:

i. Amortization expense

Amortization expense increased \$0.7M from \$7.5M in 2021 to \$8.2M in 2022, due to asset additions of \$14.4M during 2022.

ii. Contract and professional services

Contract and professional services increased \$2.0M between the years ended December 31, 2021, and December 31, 2022 from \$5.3M to \$7.3M, mainly due to contracted services returning to full levels in order to support regular operating levels as the Airport continued to recover from the COVID-19 pandemic.

iii. Salaries and benefits

Salaries and benefits increased \$1.2M from \$4.5M to \$5.7M between the years ended December 31, 2021, and December 31, 2022. Measures implemented in 2020 to help mitigate the significant, negative impact of the COVID-19 pandemic were in effect for the majority of 2021. With post-pandemic recovery continuing in 2022, the Airport returned to full operations that resulted in hiring and an increase in salaries and benefits.

iv. Materials and supplies

The cost of materials and supplies increased \$0.9M between the years ended December 31, 2021, and December 31, 2022, mainly due to the continued recovery from the COVID-19 impact with a return to full operations, combined with significant inflation experienced during 2022.

v. Policing and other Municipal services

Policing and other Municipal services decreased \$0.4M from \$1.8M in 2021 to \$1.4M in 2022, due to a decrease in the fees for Municipal services.

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 \$13.4M from \$24.3M at December 31, 2021 to \$37.7M at December 31, 2022. This is attributed to an annual surplus after depreciation of \$24.8M combined with depreciation of \$8.2M, which was partially offset by the acquisition of \$19.6M 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 \$0.2M between December 31, 2021, and December 31, 2022, as the Airport generated \$32.2M in cash from operations, changed \$10.1M in cash to portfolio investments, acquired \$19.6M of tangible capital assets, repaid debenture debt principal of \$1.9M, 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 forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Airport deployed initiatives in order to protect the health and safety of its employees and customers, support its customers, and mitigate the impact of the crisis while ensuring continuity of its operations. As a result of the aforementioned conditions, the Airport saw a significant decrease in flights, passenger volumes and revenues in 2020, 2021 and 2022. Recovery commenced in 2022, but the Airport expects flights, passenger volumes and revenues to continue to be impacted beyond 2022 and, as of this time, it is difficult to assess the length or severity of the impact 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, 2022, the Airport paid \$0.4M for employer contributions to the Municipal Pension Plan.

Commitments

At December 31, 2022, the Airport had entered into commitments of \$6.6M.

This concludes the review of the Airport's Audited Financial Statements for the years ended December 31, 2022, and December 31, 2021.



2022

Consolidated Financial Statements

Kelowna, British Columbia, Canada
For the year ended December 31, 2022



CITY OF KELOWNA

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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 consolidated financial statements of the City of Kelowna ("the City"), which comprise the consolidated statement of financial position as at December 31, 2022, 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, 2022, 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 25, 2023

Chartered Professional Accountants

CITY OF KELOWNA
Consolidated Statement of Financial Position
As at December 31, 2022
(in thousands of dollars)

	<u>2022</u>	<u>2021</u>
Financial Assets		
Cash and cash equivalents (Note 3)	\$ 91,524	\$ 103,765
Accounts receivable (Note 3)	55,130	47,450
Accrued interest	2,997	2,424
Portfolio investments (Note 3)	676,316	580,710
Long term investments (Note 10)	6,000	6,000
Assets held for resale	12,467	13,271
	<u>844,434</u>	<u>753,620</u>
Liabilities		
Accounts payable	55,507	50,762
Performance deposits	43,382	31,448
Deferred revenue (Note 3)	57,597	53,745
Deferred development cost charges (Note 3)	148,141	124,585
Long term debt (Note 3)	70,920	81,617
	<u>375,547</u>	<u>342,157</u>
Net Financial Assets	<u>468,887</u>	411,463
Non-Financial Assets		
Prepaid expenses	6,528	9,744
Inventory	1,454	1,420
Work in progress (Note 4)	43,489	26,868
Tangible capital assets (Note 4)	1,841,745	1,822,168
	<u>1,893,216</u>	<u>1,860,200</u>
Accumulated Surplus (Note 5)	<u>\$ 2,362,103</u>	<u>\$ 2,271,663</u>

Contingent liabilities and Commitments (Notes 8 and 9)
Contractual rights (Note 16)
Subsequent event (Note 18)

Joe Sass, CPA, CA
Finance Director

Tom Dyas
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, 2022
(in thousands of dollars)

	Budget 2022	Actual 2022	Actual 2021
Revenue			
Taxation (Note 6)	\$ 180,890	\$ 184,627	\$ 171,366
Fees and charges	151,556	161,823	142,185
Interest earned	8,124	16,308	11,540
DCC contributions	37,426	16,775	11,706
Government transfers (Note 7)	43,581	38,751	35,829
Other capital contributions	575	5,154	4,555
Gain on disposal of tangible capital assets	-	1,374	1,869
	<u>422,152</u>	<u>424,812</u>	<u>379,050</u>
Expenses			
General government	46,607	49,054	41,441
Protective services	88,825	77,477	73,909
Transportation	42,890	68,880	66,473
Recreation & cultural	40,763	46,824	44,101
Other services	26,743	25,919	25,379
Airport	20,050	26,466	21,997
Wastewater	12,955	23,598	21,420
Water	11,611	15,874	15,257
Loss on disposal of tangible capital assets	-	62	37
Write down of tangible capital assets	-	218	540
	<u>290,444</u>	<u>334,372</u>	<u>310,554</u>
Annual Surplus	<u>\$ 131,708</u>	<u>90,440</u>	<u>68,496</u>
Accumulated Surplus, beginning of year		<u>2,271,663</u>	<u>2,203,167</u>
Accumulated Surplus, end of year		<u>\$ 2,362,103</u>	<u>\$ 2,271,663</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, 2022
(in thousands of dollars)

	Budget 2022	Actual 2022	Actual 2021
Annual Surplus	\$ 131,708	\$ 90,440	\$ 68,496
Amortization of tangible capital assets	-	69,253	68,824
Proceeds from disposal of tangible capital assets	-	2,274	2,098
Gain on disposal of tangible capital assets	-	(1,312)	(1,832)
Write down of tangible capital assets	-	218	540
Acquisition of tangible capital assets	(271,456)	(104,913)	(69,219)
Contributions of tangible capital assets	-	(1,718)	(1,854)
Change in inventory and prepaid expenses	-	3,182	1,757
	<hr/>	<hr/>	<hr/>
Increase (decrease) in Net Financial Assets	(139,748)	57,424	68,810
Net Financial Assets, beginning of year	411,463	411,463	342,653
	<hr/>	<hr/>	<hr/>
Net Financial Assets, end of year	\$ 271,715	\$ 468,887	\$ 411,463
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2022
(in thousands of dollars)

	<u>Actual 2022</u>	<u>Actual 2021</u>
Net inflow (outflow) of cash and cash equivalents related to the following activities		
Operating		
Annual surplus	\$ 90,440	\$ 68,496
Adjustment for non-cash items		
Amortization of tangible capital assets	69,253	68,824
Gain on disposal of tangible capital assets	(1,312)	(1,832)
Write down of tangible capital assets	218	540
Actuarial adjustment on long term debt	(2,331)	(2,072)
Contributions of tangible capital assets	(1,718)	(1,854)
Decrease (increase) in		
Accounts receivable	(7,680)	(17,667)
Inventory and prepaid expenses	3,182	1,757
Other assets	231	(3,390)
Increase (decrease) in		
Accounts payable	4,745	(29,690)
Deferred development cost charges	23,556	40,831
Other liabilities	15,787	12,384
	<u>194,371</u>	<u>136,327</u>
Capital		
Acquisition of tangible capital assets	(104,913)	(69,219)
Proceeds from disposal of tangible capital assets	2,274	2,098
	<u>(102,639)</u>	<u>(67,121)</u>
Investing		
Change in investments	(95,606)	(32,911)
Financing		
Proceeds from issuance of long term debt	441	-
Repayment of long term debt	(8,808)	(8,964)
	<u>(8,367)</u>	<u>(8,964)</u>
Net increase (decrease) in cash and cash equivalents	(12,241)	27,331
Cash and cash equivalents, beginning of year	103,765	76,434
Cash and cash equivalents, end of year	\$ 91,524	\$ 103,765
Non-cash capital activities		
Acquisition of tangible capital assets through contributions (Note 4)	\$ 1,718	\$ 1,854

See accompanying notes to the consolidated financial statements.

Memo



Date: April 25, 2023
To: Audit Committee
From: Finance Director, Financial Services
Subject: Audit Committee Review of December 31, 2022 Consolidated Financial Statements
Report Prepared by: Acting Controller

Purpose of Public Sector Financial Statements

Public sector financial statements differ from business enterprise statements in that the public sector exists to provide services 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 financial 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, 2022 and December 31, 2021 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 investment, 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 \$ 844.4M exceeded its liabilities of \$375.5M at December 31, 2022. As a result, the City's net financial assets increased by \$57.4M from \$411.5M at December 31, 2021 to \$468.9M at December 31, 2022 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 \$95.6M increase in portfolio investments, offset by an increase of \$23.6M in deferred development cost charges and an increase of \$11.9M in performance deposits. 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 \$90.8M from \$753.6M at December 31, 2021 to \$844.4M at December 31, 2022.

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 decreased (\$12.2M) for the year ended December 31, 2022. Further details on this movement have been included below under the discussion of the Statement of Cash Flows.

B. Accounts Receivable

The 2022 balance of \$55.1M is an increase of \$7.7M over the prior year. This is primarily due to increased accruals for federal grant programs of \$1.0M for the Strengthening Communities grant, \$2.7M for the Biosecurity grant and \$3.3M for the Runway End Safety Area (RESA) grant.

C. Portfolio Investments

The City's portfolio investments represent funds which are not required in the day-to-day operation of the City or to satisfy short-term obligations. Portfolio investments increased by \$95.6M in 2022 from \$580.7M to \$676.3M as a result of cash flow from operating activities of \$194.3M being more than adequate to fund capital expenditures of \$104.9M and net debt repayments of \$8.8M. Also, the City received \$2.3M from sale of other assets.

Liabilities

A. Performance Deposits

At the end of 2022, performance deposits totaled \$43.4M, an increase of 11.9M over 2021 due to new projects outpacing project completions from 2021. New projects with significant performance deposits for 2022 include \$4.0M for Mission Creek Landing Senior Home, \$1.5M for Appaloosa Road works, \$1.2M for Canyon Falls multi-family development, and \$0.5M for Sutton Place Hotel - Airport

B. Deferred Development Cost Charges (DCC)

Deferred DCCs increased by \$23.6M to \$148.1M at December 31, 2022 from \$124.6M at December 31 2021 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. Notable projects that increased DCCs in 2022 include \$5.0M for Dehart park, \$4.0M for Wastewater Treatment plant, \$3.6M for Pandosy Waterfront park, \$3.0M for Mission Creek Baseball Diamond, \$2.0M for Rose Ave Bike Lane, and \$1.0M for Houghton Rail Trail project.

In 2021 notable projects included \$4.3M for 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 Valley Rd, \$1.1M for 630 Black Mountain Dr and \$1.1M for 660 Cawston Ave.

C. Long Term Debt

Long term debt decreased from \$81.6M at December 31, 2021 to \$70.9M at December 31, 2022, a decrease of (\$10.7M) due to payments and very little new debt. Payments decreasing debt include \$4.5M for the General fund, \$1.2M for the Wastewater fund, and \$2.2M for Airport.

Non-financial Assets

Non-financial assets are comprised of prepaid expenses, inventory, work in progress, and tangible capital assets that the City has available and will use to provide future service rather than to settle liabilities. The City's non-financial assets did not change significantly with a total of \$1.89B in 2022 and \$1.86B in 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 pre-payment for community use time at the Multi-purpose facility (RG Arenas). The City's prepaid expenses decreased (\$3.2M) primarily due to the draw down for the BC Transit prepaid reserve balance and the multi-purpose facility (RG Arenas).

B. Work in Progress

The City's work in progress (WIP) represents expenditures on incomplete projects that are not in use and therefore not eligible to be capitalized to tangible capital assets or subject to amortization. WIP increased \$16.6M to a balance of \$43.5M. The change in WIP is the result of:

- An increase of \$51.4M that includes \$4.8M for the Mill Creek Diversion, \$3.4M for ATB Expansion Construction, \$2.9M for City Hall Improvements, \$2.8M for Houghton 1 DCC (Nickel – Rails with Trails) ATC, \$2.4M for Pandosy Waterfront Park DCC, City-wide Park Development Phase 1, \$2.0M for Abbott (Rose Ave – Cedar Ave) Protected Bike Lane, \$1.7M for City Park Promenade Design and Construction Phase 2, \$1.5M for Hwy 97/Leckie Rd Intersection Improvements, \$1.4M for Manhattan Dr – Sanitary Replacement, \$1.3M for Old Vernon Rd – Mill Creek Crossing, \$1.3M for Airport Child Care Facility, \$1.1M for Ballou Park DCC, \$1.1M for Landfill Site Preparation, \$1.1M for Stockpiles and Reprocessing Areas Relocation, \$1.1M Knox Mountain Geotechnical Engineering, and \$1.0M for Kelowna Family Y – Mechanical & Electrical Renewal.
- A decrease of \$34.8M for projects completed and capitalized in 2022 that includes \$4.7M for Mill Creek Diversion, \$3.3M for Houghton 1 DCC (Nickel – Rails with Trails) ATC, \$2.2M for Abbot (Rose Ave – Cedar Ave) Protected Bike Lane, \$2.1M for City Park Promenade Design and Construction – Phase 2, \$1.7M for Water Street DCC Force Main, \$1.5M for Old Vernon Rd – Mill Creek Crossing, \$1.5M for Hwy 97/Leckie Rd Intersection Improvements, \$1.5M for Manhattan Dr – Sanitary Replacement, \$1.2M for Guy St Lift Station Renewal DCC, and \$1.0M for Leachate and Landfill Gas Collector - 2018

Accumulated Surplus

The City's net financial assets of \$468.9M plus the non-financial assets balance of \$1.89B totals \$2.36B 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 Consolidated 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, 2022 and December 31, 2021. 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 2022, 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 Changes in Net Financial Assets discussion.

Revenue

A. Taxation

The City collected a total of \$184.6M in taxes in 2022 compared to \$171.4M in 2021 for an increase of \$13.3M. This increase is the result of increases in the tax levy from 2021 to 2022 and the Local Area Service for the Southeast Kelowna Water project annual payment and one-time cash commute.

B. 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 \$19.6M (approximately 14%) to \$161.8M in 2022 and is mainly attributable to the Airport due to the increase in passenger levels which resulted in increases to terminal fees and AIF revenue. Additionally, a change in the parking contract at the Airport resulted in increased revenues.

C. Interest Earned

The City earns interest from a variety of sources including interest from portfolio investments, dividends from Fortis preferred shares, interest on daily bank balances and interest on past due accounts receivable. Interest earned increased by \$4.8M to \$16.3M in 2022 primarily due to the significant increase in interest rates from 2021 to 2022 with an average rate 0.45% in 2021 and 2.12% in 2022.

D. 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 increased by \$5.1M to \$16.8M in 2022 primarily due to completion of more DCC funded projects in 2022 than 2021. The value of Parks DCC funded projects increased \$7.0M and was offset by a decrease in the value of infrastructure DCC funded projects of \$1.8M.

In 2022 a total of \$16.8M in DCC funds were drawn from deferred revenue and allocated to the following projects:

- \$8.2M for Parkland Acquisition – Fitzpatrick Rd 511, 559, Findlay Rd 1119
- \$1.2M for Parkland Acquisition – Cawston Ave 571
- \$1.2M for Park Development – Pandosy Waterfront Park, DCC City-wide Park Development Phase
- \$1.0M for Park Development – Ballou Park (DCC)
- \$0.6M for Guy St Lift Station Renewal DCC

The \$16.8M in DCC funds used in 2022 was less than the DCC levies received of \$37.8M and interest earned on these funds of \$2.6M.

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 2022 total expenses increased by \$23.8M.

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 \$7.6M in spending to \$49.0M in 2022 over 2021. The increase is attributed to cost escalations, inflation and fluctuations in foreign currency exchange for major building maintenance and information technology projects (\$1.8M); increases in the hotel tax that flow through to Tourism Kelowna (\$1.4M); a full year utilization of the Strengthening Communities grant received in mid-2021 (\$1.1M); increased insurance premiums and reducing interdepartmental charges for security contacts;

and the introduction of a new cost center for Occupational Health and Safety and eliminating interdepartmental cost recoveries.

B. Protective Services

There was an increase of \$3.6M to \$77.5M over 2021 primarily due to RCMP contract increases and retro pay along with staffing increases and associated costs for uniforms, training, and operating materials.

C. Airport

Airport expenses include terminal, groundside, airside, and administration costs as well as interest and amortization. There was an increase in expense of \$4.5M to \$26.5M in 2022 over the prior year. Increases are primarily attributed to resumption of full operations and recovery of passenger levels following impacts due to COVID-19. Areas of notable increases included salaries and benefits, fuel expense, facility maintenance and security contracts as well as increased amortization due to increased capital expenditures.

D. Wastewater

There was an increase of \$2.2M in 2022 compared to 2021. This increase is the result of a reporting change for the Biosolids program. This program was included in "Other Services" in 2021.

Annual Surplus

The annual surplus increased by \$21.9M to \$90.4M in 2022 as revenues increased by 12% while expenses only increased by 7.7% over 2021.

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 \$90.4M, the accumulated surplus increased from \$2.27B to \$2.36B. 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 \$57.4M from \$411.5M at December 31, 2021 to \$468.9 at December 31, 2022.

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 \$90.4M. and adds or subtracts the following:

- Add back the non-cash amortization of \$69.3M 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 \$2.3M which is comprised of proceeds from land sales and equipment disposals;
- Subtract the gain on sale of tangible capital assets which represent the net gain over net book value from land sales and equipment sales of (\$1.3M);
- Add the write down for impaired assets of \$0.1M;
- Subtract the acquisition and contribution of tangible capital assets in the current year of (\$106.6M);
- Add the decrease of inventory and prepaid expense of \$3.2M

The variance between actual and budgeted tangible capital asset additions is primarily due to timing and carryovers of projects to completed next year. The balance of work in progress at the end of the year was \$43.5M.

General fund tangible capital asset acquisitions for 2022 totaled \$67.3M and include:

Land of 15.7M largely comprised of Parkland Acquisitions for \$ - \$10.6M, and a property acquisition for \$3.0M

Buildings capital expenditures of 6.8M which is largely comprised of City Hall Improvements Phase IV and V \$2.9M, Kelowna Family Y - Mechanical & Electrical Renewal \$1M, H₂O Centre Heat Recovery Chiller Replacement \$0.5M.

Infrastructure capital expenditures were \$35.6M which largely comprised of the following projects: Mill Creek Diversion \$4.8M, Road resurfacing \$3.4M, Houghton Rd ATC 2.8M, Padosy Waterfront Park – Phase 1 2.5M, Abbott St Protected Bike Lane Project \$2.0M, City Park Promenade Design and Construction - Phase 2 \$1.7M, Hwy.97/Leckie Road Intersection Improvements 1.5M, Old Vernon Road - Mill Creek Crossing \$1.3M, Ballou Park \$1.3, Landfill Site Preparation \$1.1, Stockpiles and Reprocessing Areas Relocation \$1.1, Knox Mountain Geotechnical Engineering \$1.1.

Machinery & Equipment capital expenditures were \$9.2M which was largely comprised of Landfill Compactor \$1.5M, heavy duty equipment, Other Heavy Duty Equip \$2.5M.

Airport fund capital acquisitions were \$19.6M and include:

Runway End Safety Area of \$6.8M, Biosecurity Testing Facility of \$5.4M, Airport Child Care Facility of \$1.3M and the Roof Replacement project of \$1.1M

Wastewater fund capital acquisitions were of \$11.8M:

Were primarily for sanitary infrastructure upgrades and replacements for \$6.9M, and a property acquisition at 1509 Byrns Rd for \$4.9M.

Water fund capital acquisitions were \$6.2M and included:

Water Meter Replacement – stage 2 of \$1.8M, South End water upgrades of \$1.5M, and Water Network and Facility renewals of \$1.7M

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 2022 of \$91.5M is a decrease of \$12.2M. 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 provide net cash inflows of \$194.4M that were used in the acquisition of new tangible capital assets of \$104.9M (net of \$1.7M which were funded through developer contribution). Proceeds from the sale of land and vehicles generated \$2.3M while repayment of debt, net of new debt borrowings was \$8.4M. The balance flowed into portfolio investments which increased by \$95.6M in the year.

The Statement of Cash Flows includes cash flows from operating, capital, investing and financing that are reviewed as follows:

Operating:

There were cash flows from operations of \$194.4M in 2022 up from \$136.3M in the prior year. The amount is determined by taking the annual surplus and adding or subtracting adjustments for non-cash items such as amortization, and developer contributions of capital, and adding or subtracting the change in balance year over year for non-cash financial assets and liabilities such as accounts receivable or payable.

- Amortization - \$69.3M
- Write down of tangible capital assets - \$0.1M
- Developer contributed assets – Land: 984 DeHart Rd (4228 Russo St), 3365 Sexsmith Rd, 796 Kuipers Cres (794 Kuipers Cres), 5100 Gordon Dr (1000 Clarence Ave) and 5533 Mountainside Dr (467 Vision Ct)
- 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.
- 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.

Capital:

Acquisition of tangible capital assets increased by \$35.7M to \$104.9M in 2022 from \$69.2M in 2021. Expenditures occurred in the following funds:

	<u>2022</u>	<u>2021</u>
General fund	\$67.3	\$50.9
Airport fund	19.6	4.6
Wastewater fund	11.8	1.2
Water fund	6.2	12.5

Proceeds on disposal of tangible capital assets increased by \$0.2M to \$2.3M from \$2.1M in 2021. Proceeds in 2022 were \$2.0M from land sales and \$0.3M from vehicle disposals. Proceeds in 2021 were \$1.8M from land sales and \$0.3M from vehicle disposals.

Repayment of debt decreased \$0.2M over 2021.

This concludes the review of the audited consolidated financial statements for the year ended December 31, 2022.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(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.

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.

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>2022</u>	<u>2021</u>
Cash deposits held by MFA	\$ 1,799	\$ 1,833
Demand notes held by MFA	<u>4,015</u>	<u>4,135</u>
	<u>\$ 5,814</u>	<u>\$ 5,968</u>

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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.

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Tangible capital assets

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

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

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

Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair market value at the date of contribution, where fair value is reasonable determinable.

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.

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Revenue recognition

Taxation revenue

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

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

Fees and charges revenue

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

Development Cost Charges (DCC) contributions

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

Government transfers

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

Investment income

The City's investments are disclosed in Note 3.

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

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

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

Expenses

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

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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 early 2020 the City acquired 1746 Water Street and accepted responsibility to clean up contamination found at the site. Clean up activities took place in 2020-2022 and further work will be undertaken in 2023 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 \$185 (2021 - \$300) is based on contractor estimates of the remaining work required to be undertaken.

The City's liability of \$185 (2021 - \$330) 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.

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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>2022</u>	<u>2021</u>
Property tax	\$ 7,756	\$ 6,736
Trade receivables	19,891	14,295
Due from government	5,353	741
Due from provincial government	2,007	2,827
Due from regional government	93	80
Utilities	6,101	6,565
Deferred development cost charges	13,929	16,206
	<u>\$ 55,130</u>	<u>\$ 47,450</u>

Portfolio investments

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

<u>Type of investment</u>	<u>2022</u>	<u>2021</u>
Municipal Finance Authority investment funds	\$ 234,637	\$ 139,658
Provincial and bank issued bonds	84,675	98,401
Publicly traded shares	76,717	72,209
Guaranteed Investment Certificates and deposit notes	280,287	270,442
Total Portfolio investments	<u>\$ 676,316</u>	<u>\$ 580,710</u>

The quoted market value of the publicly traded shares at December 31, 2022 was \$115,298 (2021 - \$125,060).

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, 2022 the balance outstanding was \$nil (2021 - \$nil).

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Deferred revenue

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

Deferred Revenue
by Type

	<u>2021</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2022</u>
Tax prepayments	\$ 20,279	\$ 39,645	\$ -	\$ 38,205	\$ 21,719
Construction	17,717	2,994	131	1,795	19,047
Grants	876	1,301	7	964	1,220
Other	10,585	9,158	47	8,586	11,204
Local Area Service	4,288	337	-	218	4,407
Total	\$ 53,745	\$ 53,435	\$ 185	\$ 49,768	\$ 57,597

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>2021</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2022</u>
Parks Land/Development	\$ 36,465	\$ 19,257	\$ 777	\$ 14,673	\$ 41,826
Roads	74,191	12,050	1,506	1,366	86,381
Water	16,124	722	325	59	17,112
Wastewater	(2,195)	5,727	(36)	677	2,819
Drainage	-	3	-	-	3
Total Deferred DCC	\$ 124,585	\$ 37,759	\$ 2,572	\$ 16,775	\$ 148,141

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>
2023	\$ 8,449
2024	8,739
2025	8,759
2026	7,630
2027	6,784
2028 and thereafter	30,559
Total	\$ 70,920

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Total outstanding debt issued was \$150,971 and total debt payable at December 31, 2022 was \$70,920 (2021 - \$81,617). Total interest paid in 2022 was \$3,762 (2021 - \$3,667).

Schedule 3 provides a breakdown of long term debt.

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

	2022	2022	2021	2021
	Work in	Tangible capital	Work in	Tangible capital
	progress	assets (NBV)	progress	assets (NBV)
Land	\$ -	\$ 369,612	\$ -	\$ 348,576
Land improvements	847	31,694	336	33,079
Buildings	18,894	188,637	9,323	187,870
Infrastructure	21,795	1,168,485	15,323	1,170,786
Machinery and equipment	1,953	83,317	1,886	81,857
	\$ 43,489	\$ 1,841,745	\$ 26,868	\$ 1,822,168

Contributions received in 2022 include:

<u>Type of contribution</u>	2022	2021
Land	\$ 1,718	\$ 1,838
Infrastructure	-	16
Total Contributed tangible capital assets	\$ 1,718	\$ 1,854

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

During the year, tangible capital assets with a cost of \$218 (2021 - \$540) were written off due to impairment.

During the year, no interest was capitalized \$nil (2021 - \$nil).

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5. Accumulated surplus

	Reserves for Future Expenditures	Statutory Reserves	Fund Surpluses	Investment in Tangible Capital Assets	Total 2022	Total 2021
Accumulated surplus, beginning of year	\$ 309,973	\$ 116,022	\$ 68,724	\$ 1,776,944	\$ 2,271,663	\$ 2,203,167
Annual surplus (deficit)	8,994	2,466	113,253	(34,273)	90,440	68,496
Transfers	27,373	7,475	(34,848)	-	-	-
Acquisition of tangible capital assets, net	(14,419)	-	(57,580)	71,999	-	-
Repayment of long term debt	-	-	(8,808)	8,808	-	-
Accumulated surplus, end of year	\$ 331,921	\$ 125,963	\$ 80,741	\$ 1,823,478	\$ 2,362,103	\$ 2,271,663

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	\$ 236,152	\$ 19,462	\$ 16,007	\$ 7,547	\$ 240,244
Airport Fund reserve	34,404	16,494	26,716	955	45,581
Waste Water Fund reserve	16,545	3,322	5,393	77	18,693
Water Fund reserve	22,872	2,110	6,226	415	27,403
	<u>309,973</u>	<u>41,388</u>	<u>54,342</u>	<u>8,994</u>	<u>331,921</u>
<u>Statutory Reserves</u>					
Parking reserve	8,717	2,470	4,992	167	11,406
Land reserve	6,947	3,369	4,706	148	8,432
Capital works, machinery and equipment reserve	100,358	30,374	27,276	1,983	99,243
Septic removal specified area reserve	-	-	6,714	168	6,882
	<u>116,022</u>	<u>36,213</u>	<u>43,688</u>	<u>2,466</u>	<u>125,963</u>
<u>Surplus by Fund</u>					
General Fund surplus	4,852	107,623	53,875	65,710	16,814
Airport Fund surplus	2,407	25,688	1,905	23,783	2,407
Waste Water Fund surplus	51,502	12,043	(1,626)	11,336	49,169
Water Fund surplus	9,963	12,921	2,885	12,424	12,351
Accumulated Surplus	<u>68,724</u>	<u>158,275</u>	<u>57,039</u>	<u>113,253</u>	<u>80,741</u>
<u>Investment in Non Financial Assets</u>					
Investment in tangible capital assets	<u>1,776,944</u>	<u>8,808</u>	<u>89,615</u>	<u>(34,273)</u>	<u>1,823,478</u>
Accumulated Surplus	\$ 2,271,663	\$ 244,684	\$ 244,684	\$ 90,440	\$ 2,362,103

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6. Taxation

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

	<u>2022</u>	<u>2021</u>
Taxes collected		
Property taxes	\$ 285,928	\$ 268,596
Local improvement levies	142	146
Frontage tax - water	1,704	1,668
Specified sewer area recoveries	1,240	1,293
Grants in lieu of taxes	627	472
Levies - library	7,056	6,916
Levies - other	4,911	1,341
	<u>301,608</u>	<u>280,432</u>
Less transfers to other governments		
Province of BC (school taxes)	86,616	79,658
BC Assessment Authority	2,488	2,272
Regional Hospital District	13,884	13,630
Regional District of Central Okanagan	13,993	13,506
	<u>116,981</u>	<u>109,066</u>
Net taxes available for municipal purposes	<u>\$ 184,627</u>	<u>\$ 171,366</u>

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7. Government transfers

Government transfers are the major source of transfers to the City. Government transfers received are for completed projects that meet the required criteria as set out by the Government body providing the funding. Government transfers do not include grants in lieu of taxes received from the Federal and Provincial governments. During the year \$386 (2021 - \$203) remained as deferred revenue for future expenditures. In 2022 the City received and recorded as revenue the following transfers:

	<u>2022</u>	<u>2021</u>
Operating transfers		
Federal	\$ 856	\$ 3,699
Provincial	24,277	27,403
Other governments	166	175
	<u>25,299</u>	<u>31,277</u>
Capital transfers		
Federal	11,234	760
Provincial	2,218	3,772
Other governments	-	20
	<u>13,452</u>	<u>4,552</u>
Total Government transfers	<u>\$ 38,751</u>	<u>\$ 35,829</u>

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8. Contingent liabilities

Regional District of Central Okanagan

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

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

Pension liability

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2021, the plan has about 227,000 active members and approximately 118,000 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, 2021, indicated a \$3.8 billion funding surplus for basic pension benefits on a going concern basis.

The City of Kelowna paid \$8,224 (2021 - \$8,209) for employer contributions while employees contributed \$7,156 (2021 - \$6,834) to the plan in fiscal 2022.

The next valuation will be as at December 31, 2024, with results available in 2025.

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

Post employment benefits and compensated absences

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

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Legal actions

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

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

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, 2022 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 86 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 \$4,585 (2021 - \$4,429) represents the portion of the estimated total expenditure recognized as at December 31, 2022. The remaining capacity of the landfill site is estimated at 26.7 million tonnes which is 90% of the site's total capacity.

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

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

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YMCA of Southern Interior BC loan guarantee agreement

The City has, under the terms of the partnering agreement between the City of Kelowna and YMCA of Southern Interior BC, guaranteed repayment in the event that the YMCA of Southern Interior BC 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 Southern Interior BC. 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 prime minus 0.5%. As at December 31, 2022, the outstanding loan balance was \$481 (2021 - \$537). 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 \$4,709 (2021 - \$5,382) 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.

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11. Letters of credit

In addition to the performance deposits reflected in cash balances, the City is holding irrevocable Letters of Credit in the amount of \$67,692 (2021 - \$68,816) 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 \$67,692, the City is holding irrevocable Letters of Credit in the amount of \$15,339 (2021 - \$18,155) 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, 2022 the Trust Fund balance is \$3,526 (2021 - \$3,348).

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
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

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 Centre 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; capital works, machinery and equipment; and public amenities.

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
December 31, 2022
(in thousands of dollars)

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	\$ 364,353
Capital budget	57,799
	<u>422,152</u>
Expenses:	
Operating budget	290,444
Capital budget	271,456
	<u>561,900</u>
Annual deficit per approved budget	(139,748)
Add: tangible capital asset purchases	271,456
Annual surplus per statement of operations	<u>\$ 131,708</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, 2022, 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 2025.

17. Comparative figures

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

18. Subsequent event

Subsequent to December 31, 2022, amendments were made to the Airport Critical Infrastructure Program grant agreements with the Federal Government, which resulted in 100% of qualifying expenditures made prior to December 31, 2022 being reimbursed rather than 50%. This resulted in \$1.6 million in grants being received earlier than anticipated.

CITY OF KELOWNA
Schedule 1 - Tangible Capital Assets
For the Year Ended December 31, 2022
(in thousands of dollars)

	Machinery & Equipment						Subtotal Machinery & Equipment
	Land	Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computers	
Cost							
Balance, beginning of year	\$ 348,576	\$ 79,478	\$ 365,240	\$ 39,382	\$ 113,898	\$ 23,787	\$ 177,067
Add: additions during the year	21,040	35	7,454	5,348	3,159	997	9,504
Add: transfers to tangible capital assets	-	1,092	1,783	681	1,513	511	2,705
Less: assets held for resale	805	-	-	-	-	-	-
Less: disposals during the year	(809)	-	(31)	(1,470)	(87)	-	(1,557)
Balance, end of year	369,612	80,605	374,446	43,941	118,483	25,295	187,719
Accumulated Amortization							
Balance, beginning of year	-	46,399	177,370	23,240	56,672	15,298	95,210
Add: amortization	-	2,512	8,443	2,521	5,223	2,767	10,511
Less: accumulated amortization on disposals	-	-	(4)	(1,319)	-	-	(1,319)
Balance, end of year	-	48,911	185,809	24,442	61,895	18,065	104,402
Net Book Value of Tangible Capital Assets	\$ 369,612	\$ 31,694	\$ 188,637	\$ 19,499	\$ 56,588	\$ 7,230	\$ 83,317

	Infrastructure								
	Plant & Facilities	Roads, Lanes, Sidewalks & Bike Paths	Bridges, Tunnels & Overpasses	Underground, Overhead & Other Networks	Airport Infrastructure	Subtotal Infrastructure	Work In Progress	Total 2022	Total 2021
Cost									
Balance, beginning of year	\$ 228,881	\$ 589,774	\$ 37,002	\$ 1,210,190	\$ 89,450	\$ 2,155,297	\$ 26,868	\$ 3,152,526	\$ 3,083,123
Add: additions during the year	100	4,568	380	4,405	6,965	16,418	51,374	105,825	74,176
Add: transfers to tangible capital assets	5,552	5,917	-	17,510	194	29,173	(34,753)	-	-
Less: assets held for resale	-	-	-	-	-	-	-	805	(3,101)
Less: disposals during the year	(51)	-	-	(54)	-	(105)	-	(2,502)	(1,672)
Balance, end of year	234,482	600,259	37,382	1,232,051	96,609	2,200,783	43,489	3,256,654	3,152,526
Accumulated Amortization									
Balance, beginning of year	104,338	371,319	10,780	459,218	38,856	984,511	-	1,303,490	1,235,530
Add: amortization	7,769	17,895	580	18,314	3,229	47,787	-	69,253	68,824
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(1,323)	(864)
Balance, end of year	112,107	389,214	11,360	477,532	42,085	1,032,298	-	1,371,420	1,303,490
Net Book Value of Tangible Capital Assets	\$ 122,375	\$ 211,045	\$ 26,022	\$ 754,519	\$ 54,524	\$ 1,168,485	\$ 43,489	\$ 1,885,234	\$ 1,849,036

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2022
(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>2022</u>
Revenue										
Taxation	\$ 177,971	\$ -	\$ 142	\$ -	\$ -	\$ -	\$ 1,239	\$ 5,275	\$ -	\$ 184,627
Fees and charges	14,455	13,333	17,544	5,366	29,732	41,984	22,604	16,616	189	161,823
Interest earned	11,293	-	-	-	-	1,010	1,112	615	2,278	16,308
DCC contributions	-	-	1,366	14,673	-	-	677	59	-	16,775
Government transfers	8,758	4,171	13,306	3,980	195	7,784	557	-	-	38,751
Other capital contributions	3,105	-	-	425	-	575	485	564	-	5,154
Gain on disposal of tangible capital assets	297	-	1,075	2	-	-	-	-	-	1,374
	<u>215,879</u>	<u>17,504</u>	<u>33,433</u>	<u>24,446</u>	<u>29,927</u>	<u>51,353</u>	<u>26,674</u>	<u>23,129</u>	<u>2,467</u>	<u>424,812</u>
Expenses										
Salaries and benefits	25,977	37,296	10,179	12,898	8,972	5,529	4,627	4,248	-	109,726
Contract and professional services	10,943	1,423	30,767	7,844	8,469	2,489	1,275	615	-	63,825
RCMP Contract	-	36,172	-	-	-	-	-	-	-	36,172
Materials and supplies	7,807	2,369	7,405	12,409	1,024	8,192	2,981	1,575	-	43,762
Equipment	563	363	3,552	1,816	2,242	13	1,135	749	-	10,433
Allocations	(7,803)	(166)	174	(193)	3,574	1,507	1,662	1,251	-	6
Cost recoveries	(1,039)	(2,308)	(10,189)	(146)	(1,590)	(690)	(258)	(730)	-	(16,950)
Grants and external transfers	3,835	86	28	1,542	478	-	-	-	-	5,969
Utilities	204	350	1,380	2,342	247	680	1,534	1,397	-	8,134
Loss on disposal of tangible capital assets	19	-	43	-	-	-	-	-	-	62
Write down of tangible capital assets	26	-	-	52	102	38	-	-	-	218
Amortization of tangible capital assets	5,939	1,893	25,585	8,311	2,502	8,161	10,360	6,502	-	69,253
Total before Debt	<u>46,471</u>	<u>77,478</u>	<u>68,924</u>	<u>46,875</u>	<u>26,020</u>	<u>25,919</u>	<u>23,316</u>	<u>15,607</u>	<u>-</u>	<u>330,610</u>
Debt interest and fiscal services	2,628	-	-	-	-	584	282	268	-	3,762
Total operating expenses	<u>49,099</u>	<u>77,478</u>	<u>68,924</u>	<u>46,875</u>	<u>26,020</u>	<u>26,503</u>	<u>23,598</u>	<u>15,875</u>	<u>-</u>	<u>334,372</u>
Annual Surplus (Deficit)	<u>\$ 166,780</u>	<u>\$ (59,974)</u>	<u>\$ (35,491)</u>	<u>\$ (22,429)</u>	<u>\$ 3,907</u>	<u>\$ 24,850</u>	<u>\$ 3,076</u>	<u>\$ 7,254</u>	<u>\$ 2,467</u>	<u>\$ 90,440</u>

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 3 - Long Term Debt
For the Year Ended December 31, 2022
(in thousands of dollars)

Long term debt - General Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2021</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2022</u>	<u>Sinking Fund Balance December 31, 2022</u>	<u>Current Interest Rate</u>
	Public Works					%
2022	Chapman Parkade	\$ 311	\$ 4,071	\$ -	\$ 4,071	2.25
	Local Improvements					
2035	Lawrence Ave LAS	253	345	238	107	3.00
	Recreation and Cultural					
2027	H2O Centre	10,607	27,500	9,008	18,492	3.90
2027	Kokanee Gymnastic	309	800	262	538	3.90
2028	H2O Centre	883	2,000	772	1,228	2.90
2035	Police Facilities	15,368	20,000	14,498	5,502	2.75
2035	Library Parkade Ext & Memorial Parkade	11,526	15,000	10,874	4,126	2.75
2036	Police Facilities	13,776	17,000	13,063	3,937	2.60
2037	Police Facilities	2,533	3,000	2,407	593	3.15
2038	Police Facilities	1,204	1,360	1,148	212	3.15
<u>Total Debt - General Fund</u>		<u>\$ 56,770</u>	<u>\$ 91,076</u>	<u>\$ 52,270</u>	<u>\$ 38,806</u>	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2022
(in thousands of dollars)

Long term debt - Wastewater Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2021</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2022</u>	<u>Sinking Fund Balance December 31, 2022</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2022	Spec. Area 22A - Gerstmar	\$ 3	\$ 40	\$ -	\$ 40	0.65
2024	Spec. Area 21A - McKenzie Bench	295	1,350	201	1,149	2.25
2024	Spec. Area 22B - Vista Rd	17	80	12	68	2.25
2024	Spec. Area 22C - Hein Rd	58	266	40	226	2.25
2024	Spec. Area 22D - Elwyn Rd	32	149	22	127	2.25
2024	Spec. Area 22E - Dease Rd	21	96	14	82	2.25
2024	Spec. Area 22F - Mills Rd	75	342	51	291	2.25
2024	Spec. Area 29 - Campion Cambro	191	874	130	744	2.25
2024	Spec. Area 30 - Acland	80	364	54	310	2.25
2025	Spec. Area 20 - North Rutland	1,794	6,822	1,365	5,457	0.91
2025	Spec. Area 28A - Okaview	168	638	128	510	0.91
2028	Spec. Area 26 - Fisher Rd	893	2,021	780	1,241	2.90
2028	Spec. Area 34 - Country Rhodes	192	435	168	267	2.90
2028	Spec. Area 36 - Clifton	118	267	103	164	2.90
	Sewage Treatment Plant					
2031	Brandt's Creek Tradewaste Treatment	1,522	3,800	1,238	2,562	1.47
Total Debt - Wastewater Fund		\$ 5,459	\$ 17,544	\$ 4,306	\$ 13,238	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2022
(in thousands of dollars)

Long term debt - Water Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2021</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2022</u>	<u>Sinking Fund Balance December 31, 2022</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2023	Spec Area 16 - Byrns	\$ 6	\$ 39	\$ 3	\$ 36	2.85
2024	Spec Area 18 - Lakeshore	5	24	4	20	2.25
2028	Spec Area 26 - Fisher Rd	131	297	115	182	2.90
2038	Local Area Service - Aspen Rd	42	48	41	7	3.20
2042	Local Area Service - Somid	-	441	441	-	3.36
	Water Improvement Programs					
2028	Cedar Creek Pump Station	3,346	7,577	2,923	4,654	2.90
2031	Poplar Point Pump Station Upgrade	1,195	2,000	1,091	909	1.47
	Total Debt - Water Fund	\$ 4,725	\$ 10,426	\$ 4,618	\$ 5,808	

Long term debt - Airport Fund

Debenture Debt

2025	Airport Expansion	\$ 3,312	\$ 7,500	\$ 2,527	\$ 4,973	2.75
2026	Airport Expansion	1,900	3,500	1,546	1,954	2.60
2026	Airport Expansion	1,611	3,000	1,307	1,693	2.10
2027	Airport Expansion	5,080	8,000	4,295	3,705	2.80
	Total Debt - Airport Fund	\$ 11,903	\$ 22,000	\$ 9,675	\$ 12,325	

Long term debt - Other

2022	General Land - Diamond Mountain	\$ 1,225	\$ 6,900	\$ -		nil
2023	General Land - Dewdney Park	1,476	2,952	-		nil
2029	Airport - Enterprise Rental Car Kiosk	59	73	51		nil
	Total Debt - Other	\$ 2,760	\$ 9,925	\$ 51		

Total City Long Term Debt

\$ 81,617	\$ 150,971	\$ 70,920
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CITY OF KELOWNA
Schedule 4 - COVID-19 Safe Restart Grant for Local Governments
For the Year Ended December 31, 2022
(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>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 1,716	\$ 5,403
Interest earned	37	28
Less funds used to support:		
Gaming revenue losses	-	(2,436)
Corporate preparedness planning	-	(536)
Community services revenue losses	(204)	(743)
Technological costs	(210)	-
Support for vulnerable persons	(285)	-
Enforcement and protective services	(684)	-
	<u>(1,346)</u>	<u>(3,687)</u>
Balance, end of year	<u>\$ 370</u>	<u>\$ 1,716</u>



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Memo



Date: April 25, 2023
File: 0605-01
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of 2022 Surplus and Reserves
Report Prepared by: Financial Planning Manager

2022 Surplus

The 2022 fiscal year ended with a surplus of \$15.1M, made up of the General, Airport (after contributions to reserve), Water Utility and Wastewater Utility Fund surpluses. This surplus is calculated based on the 2022 amended budget. 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 amendment no. 1 to the Five-Year Financial Plan 2022-2026 Bylaw along with details reflecting the necessity for the amendment, was forwarded to Council at the April 17, 2023 regular meeting.

The General Fund makes up the majority of this surplus at \$12.0M. This surplus is being recommended to be allocated to reserve and accumulated surplus as part of the City Manager's April 25, 2023 memorandum titled "2022 Surplus from Operations". After the distribution of this surplus, the general fund's accumulated surplus will be \$5.0M which represents 3% of the 2022 taxation demand.

Major contributing factors that led to this level of surplus include:

- Surplus within the RCMP contract budget due to member vacancies,
- Record high levels of staff vacancies throughout the organization,
- And higher than expected permit revenues as construction activity continued to be high with permit values exceeding \$1B.

These surpluses were offset by financial challenges such as:

- High inflation, price escalations, and supply chain challenges causing additional costs throughout the organization for items such as fuel and maintenance costs,
- Higher than expected costs for snow and ice control as heavy snow accumulations were experienced in January and again in November,
- And unexpected legal expenses.

The Airport ended the year with a \$24.8M surplus due to increasing revenues as the Airport continued to recover from the COVID-19 pandemic, combined with efforts to move strategic initiatives forward while keeping costs low. All surplus funds have been contributed to reserve to be used to fund future capital projects identified as part of the Airport long-term capital plan.

The Wastewater Utility ended the year with a \$2.5M surplus. This surplus is primarily due to additional revenues from new residential units. The surplus will be contributed to the accumulated surplus to act as an equalization fund to ensure utility rate increases are kept at acceptable levels.

The Water Utility's annual surplus is \$621k. The utility experienced several staff vacancies over the year resulting in salary and wages budgets not being used. This was offset by lower-than-expected water sales as less water was consumed throughout the community.

Further details on these surpluses can be found in the following section "Appendix A" titled "2022 Revenue - Expenditure Analysis".

2022 Reserves

The City maintains reserves to achieve policy objectives such as:

- To acquire, replace and renew major capital assets
- To ensure stable, predictable tax and utility levies
- To minimize the financial impact of unusual and unexpected events
- To achieve long-term financial stability
- To fund asset retirement obligations

The City continues to maintain a healthy reserve balance. Available reserves increased by \$31.6M between 2021 and 2022. The largest increase was in the Airport reserves (\$11.2M), mainly due to the contribution of airport improvement fee revenue being contributed to reserve. Other significant net contributions to reserve include \$5.2M in the Legacy Reserves from reinvestment of Fortis share dividends, \$5.6M from Landfill operations and \$4.5M from Parking Services.

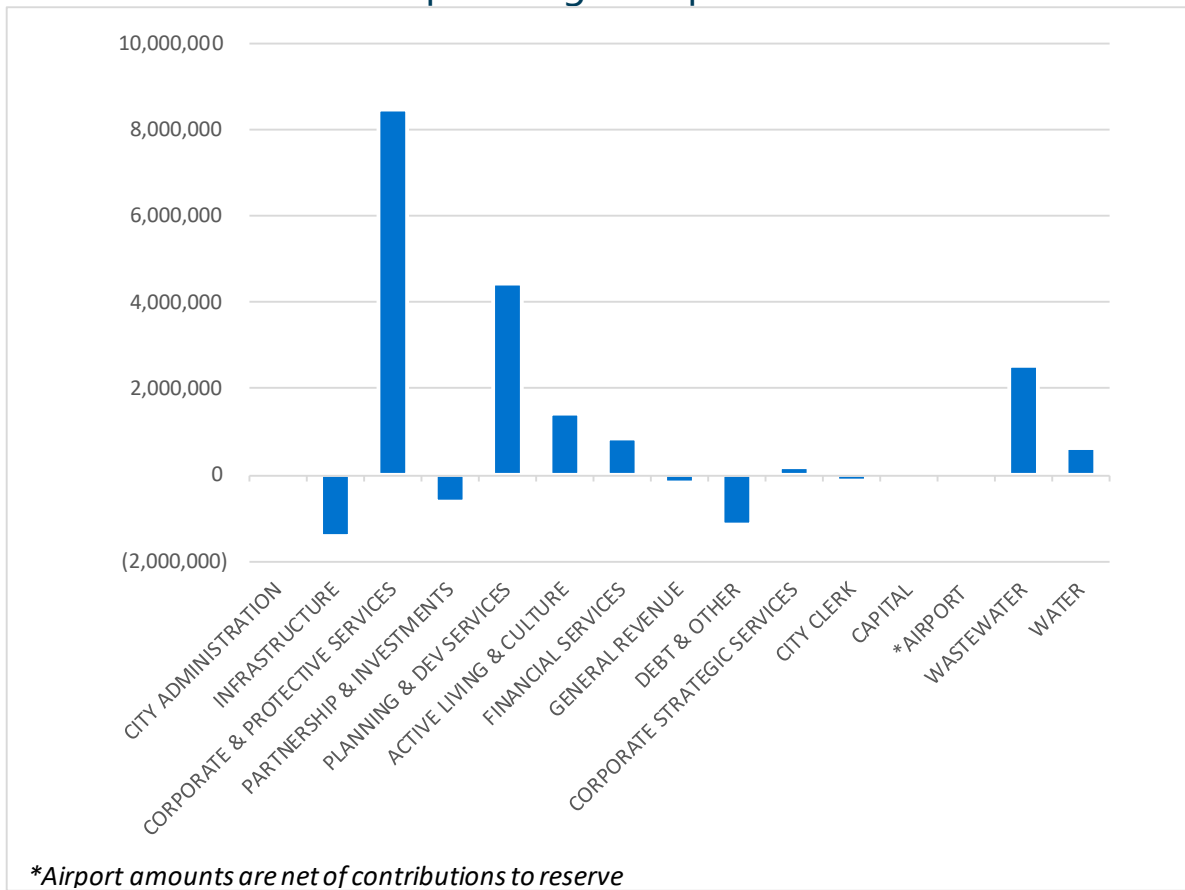
Development Cost Charges (DCC) are reported separately from other reserves as they are revenues received for specific purposes and cannot be used for any other expenditures. The DCC balance increased by \$23.6M between 2021 and 2022.

J. Sass, CPA, CA

cc: City Manager
Grant Thornton – Tyler Neels

APPENDIX A - 2022 Revenue - Expenditure Analysis

2022 Operating & Capital Results



	Actuals	Budget	Variance	
City Administration	1,917,197	1,931,848	14,651	99.2%
Infrastructure	38,792,517	37,393,222	(1,399,295)	103.7%
Corporate & Protective Services	71,557,249	80,020,397	8,463,148	89.4%
Partnerships & Investments	9,882,895	9,282,838	(600,057)	106.5%
Planning & Development Services	(4,717,597)	(286,625)	4,430,972	1645.9%
Active Living & Culture	9,637,467	11,080,189	1,442,722	87.0%
Financial Services	5,775,271	6,613,883	838,612	87.3%
General Revenues	(179,152,456)	(179,316,814)	(164,358)	99.9%
Debt & Other	9,603,587	8,476,504	(1,127,083)	113.3%
Corporate Strategic Services	9,174,096	9,369,354	195,258	97.9%
City Clerk	1,643,237	1,511,304	(131,933)	108.7%
Capital Projects (General)	13,924,569	13,923,900	(669)	100.0%
Total General Fund Deficit/(Surplus)	(11,961,967)	-	11,961,967	
Airport	-	-	-	0.0%
Wastewater Utility	(2,536,147)	-	2,536,147	0.0%
Water Utility	(621,318)	-	621,318	0.0%
Total Deficit/(Surplus)	(15,119,432)	-	15,119,432	

1. Summary of General Fund

City Administration

The City Administration Division ended the year at 99.2% of budget and a surplus of \$15k. This surplus is mostly due to unspent contingency budgets.

Infrastructure

The General Fund portion of the Infrastructure Division ended the year at 103.7% of budget and a deficit of \$1.4M. This deficit is mostly due to unexpected costs incurred for snow and ice control as the City saw heavy snow accumulations in January and again in November as part of the early winter season experienced in 2022. The Transit Branch had better than expected revenues as the city continues to financially recover from the COVID-19 pandemic but ended the year with a deficit as high inflation significantly impacted fuel and maintenance costs.

Corporate & Protective Services

The Corporate and Protective Services Division ended the year at 89.4% of budget and a surplus of \$8.5M. The majority of this surplus is related to the RCMP contract and member vacancies as well as staff vacancies throughout the division. Higher than expected casino gaming revenue and lower prisoner supervision costs also contributed to this surplus. These were partially offset with lower-than-expected penalty and fine revenue, additional costs associated with record high recruitment and hiring for the organization, and timing of insurance claims.

Partnerships & Investments

The Partnerships and Investments Division ended the year at 106.5% of budget and a deficit of \$600k. This was mostly due to inflationary pressures and price escalations of professional services, materials, and supplies for maintaining civic buildings. In addition, increased utilization of City facilities in 2022, as result of the loosening of COVID-19 related health orders, led to increased utility costs.

Planning & Development Services

The Planning and Development Division ended the year at 1645.9% of budget and a surplus of \$4.4M. Both 2021 and 2022 were unprecedented years for construction activity with permit values exceeding \$1B, resulting in larger than expected permit revenue. In addition, business license revenue was larger than expected as the growth and development of the city resulted in an increase in businesses license applications for the year. The department was also able to better manage the tracking of licensing and renewals ensuring past licenses were renewed.

Active Living & Culture

The Active Living and Culture Division ended the year at 87.0% of budget and a surplus of \$1.4M. Several budgets were not used in 2022 due to staff vacancies and community events not held due to a lack of time available for planning after the COVID-19 restrictions were lifted in quarter one. COVID-19 Safe Restart Grant funds being held in reserve were used to offset COVID-19 related revenue losses and additional costs. Other departments like the Community Theatre and Sports & Event Services saw higher than expected revenues due to a strong post-COVID recovery.

Financial Services

The Financial Services Division ended the year at 87.3% of budget and a surplus of \$839k. The surplus is mainly due to staff vacancies experienced by various branches within the division.

General Revenues

General Revenues ended the year at 99.9% of budget and a deficit of \$164k. General revenues saw better-than-expected revenues from penalties and interest on property taxes and utility bills resulting from historic increases in interest rates. Due to the surpluses in these revenues, it was decided not to sell any Fortis shares during the year resulting in a small deficit.

Debt & Other

Debt and other ended the year at 113.3% of budget and a deficit of \$1.1M. The surplus is mainly due to the salary vacancy factor that is in place to offset vacancies throughout the organization and help prevent the overtaxing of property owners. This was partially offset by the contingency for unpredictable events budget that was not used in 2022.

Corporate Strategic Services

The Corporate Strategic Services Division ended the year at 97.9% of budget and a surplus of \$195k. This surplus is mainly due to lower than anticipated costs related to Unit 4 Support and Cyber Security Enhancements projects.

City Clerk

The City Clerks Division ended the year at 108.7% of budget and a deficit of \$132k. This deficit is mainly due to unexpected legal expenses during the year.

Capital Projects (General Fund)

Capital projects ended the year at 100.0% of budget after contributions to reserve for carryover projects.

2. Summary of Airport/Utility Funds

Airport Fund

The Airport's 2022 surplus before contributions to reserve was \$24.8M. The COVID-19 pandemic had a substantial, negative impact on YLW's business beginning in March 2020, with impacts expected to continue beyond 2022. During 2022, passenger numbers increased 107% when compared to 2021 and were 1% less than what was budgeted at 1.7M. Airport revenues totaled \$51.2M for the year. This additional \$10.5M was mainly due to increased grant revenue and capital contributions. Airport operating expenditures, excluding amortization, was \$1.8M less than budget at \$18.2M. Expenditures came in under budget due to the continued, concerted effort to move strategic initiatives forward while keeping costs low to help mitigate the negative impacts of the COVID-19 pandemic.

The accumulated surplus for the Airport is \$2.4M. Accumulated surplus acts as a fund for emergencies, such as fires and floods.

Wastewater Utility Fund

The Wastewater Utility 2022 surplus was \$2.5M. The Wastewater Utility received greater than expected revenue primarily due to the higher than planned number of residential units added. This was offset by

increased costs of chemicals used for wastewater treatment and high cost of repair parts due to inflationary and supply chain challenges.

The accumulated surplus balance, before any 2022 surplus contributions, for the Wastewater Utility is \$46.6M. This includes a \$4.9M reduction over 2021 as funds were used to purchase land to be used as a strategic municipal land holding for a future Wastewater Treatment Facility and the associated buffer lands adjacent to the future facility. 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 2022 surplus was \$621k. The water utility received greater than expected revenues from investment interest due to historic increases in interest rates. This was offset by lower-than-expected water sales due to reduced water consumption throughout the community. Salary and wages expenses were less than anticipated as the utility experienced several staff vacancies. Further expense surplus was realized as there were no major operating events that occurred during the year. These surpluses were reduced by an overage in the Water Meter Replacement Stage 2 capital project as additional materials were purchased to prevent supply chain issues and project delays for the project continuation in 2023.

The accumulated surplus balance, before any 2022 surplus contributions, for the Water Utility is \$11.7M. This includes a \$2.3M increase over 2021 due to the Southeast Kelowna Local Area Service first year annual & one-time cash commutation payments received to pay back the internal financing for the water integration project. 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. Summary of Reserve Funds

The City of Kelowna’s 2022 year-end reserve position on a comparative basis to 2021 is as follows in 000’s of dollars:

	<u>2022</u>	<u>2021</u>
General Reserves for Future Expenditures	\$129,706	\$130,833
Legacy Reserves	110,543	105,324
Statutory Reserves for Future Expenditures	125,964	116,022
Utility Reserves for Future Expenditures	91,677	73,821
Total Reserves	<u>\$457,890</u>	<u>\$426,000</u>
Less Multi-Purpose Commitment	7,283	7,014
Available Reserves	<u>\$450,607</u>	<u>\$418,986</u>

The Legacy Reserves increased by \$5.2M primarily due to reinvestment of Fortis share dividends.

4. Reserves for Future Expenditures - Increase of \$26.7M

General Fund

The General Fund has a reserve for future expenditure balance of \$129.7M of which \$19.3M represents unspent budget funds which are earmarked to be used to fund projects that are anticipated to be completed over the next few years. The total reserve for future expenditure balance decreased \$1.1M from 2021 as funds were used to help offset deficits caused by continued COVID-19 pandemic impacts.

Airport Reserves

The Airport reserves for future expenditure balance is \$45.6M, which is made up by the following reserve balances: \$20.1M Airport Improvement Fee, \$(0.8M) Airport Terminal, \$26.1M Airport Groundside, \$Nil Airport Airside, and \$0.2M Airport Fringe Benefit. There was an overall fund increase of \$11.2M due to revenues exceeding the acquisition of tangible capital assets. 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 \$18.7M of which \$14.9M represents unspent budget funds which are earmarked for future use. The total reserve for future expenditure balance increased \$2.5M 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 \$27.4M. This is an increase of \$4.5M which can be attributed to an overall increase in carried over unspent budget funds of \$751k, and an increase to the Water Quality Enhancement of \$3.5M.

Statutory Reserves

The Statutory reserves have a future expenditure balance of \$126.0M. This is an increase of \$9.9M which is primarily attributed to Parking and Landfill profits being contributed to reserve for future capital requirements.

5. Deferred Development Cost Charges

The Development Cost Charge balance has increased by \$23.6M. Development Cost Charge revenues totaled \$40.3M while expenditures were \$16.8M. The consolidated closing deferred DCC balance was \$148.1M.

Memo



Date: April 25, 2023
Rim No. 0220-20
To: Audit Committee
From: City Manager
Subject: 2022 Surplus from Operations

Report Prepared by: Finance Director

Recommendation:

That the 2022 General Fund Surplus of \$11,961,967 generated from operating and capital programs be distributed as per the City Manager’s memo of April 25, 2023.

Purpose:

To provide the Audit Committee with a recommendation for the allocation of the 2022 General Fund surplus for contribution to reserve and accumulated surplus.

Background:

The 2022 year-end surplus is \$11,961,967. This is the total surplus that was generated from all General Fund operations in 2022 with the major sources being: RCMP staff vacancies resulting in excess budget of \$7.3M, development related revenues in excess of budget of \$3.3M, and a surplus of \$1.4M related to Active Living and Culture due to staff vacancies and fewer program offerings as a result of the COVID-19 pandemic and related provincial health mandates.

The following allocation of the 2022 surplus is recommended in order to minimize risk where unanticipated circumstances may arise during the year; maintain acceptable reserve levels; and support Council priorities.

Equalization Reserves	\$ 1,285,000	Fiscal equalization reserves are used to provide funding for unexpected events such as heavy snow fall years and slope stability issues, as well as to offset unanticipated expenditure or revenue fluctuations. This contribution will bring various equalization reserves back up to acceptable reserve levels.
Major Recreation	\$ 5,000,000	To help fund and reduce potential long-term borrowing related to the proposed Kelowna Community Campus.

Land Acquisition & Partnerships	\$ 4,500,000	To help fund purchases of land for the purposes of affordable housing and parks, as well as provide funding that can be leveraged in response to partnership opportunities.
Council Strategic Fund	\$ 1,000,000	To provide funding for Council to use at their discretion to fund projects that will bring positive change that align with Council priorities.

The remaining balance of \$176,967 will flow to Accumulated Surplus. The Accumulated Surplus balance provides for a surplus level of approximately \$5.0M which is 3% of the 2022 taxation requirement. This resulting accumulated surplus balance 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 Finance Director will be pleased to discuss any of the information provided in this memorandum during the Audit Committee Meeting on April 25, 2023. If the Audit Committee agrees with this recommendation, it will then be forwarded to Council for their approval.

Submitted by:



Doug Gilchrist
City Manager

cc: Controller,
Corporate Finance Manager,
Financial Planning Manager

Report to Council



Date: May 8, 2023
File: 0250-20
To: Council
From: Chair, Audit Committee
Subject: Financial Statements for the Year Ending December 31, 2022
Report Prepared by: Finance Director, Financial Services

Recommendation:

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

Purpose:

To present the Financial Statements to Council for acceptance per the legislative requirement and to seek approval to include the Financial Statements in the annual report.

Background:

A detailed review of draft City of Kelowna Financial Statements for the year ending December 31, 2022 was undertaken on April 25, 2023 by the Audit Committee, the City of Kelowna Auditor, Grant Thornton LLP, and Financial Services staff.

Legal/Statutory Authority:

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

Considerations not applicable to this report:

Internal Circulation:
Financial/Budgetary Considerations:

Legal/Statutory Procedural Requirements:
Existing Policy:
Personnel Implications:
External Agency/Public Comments:
Communications Comments:
Alternate Recommendation:

Submitted by:

Mayor Dyas, Chair, Audit Committee

cc: Councillor R.Cannan – Audit Committee
Councillor L. Stack – Audit Committee
Finance Director, Financial Services
Acting Controller
Financial Planning Manager
Grant Thornton LLP – Auditor - Mr. Tyler Neels, CPA, CA

Report to Council



Date: May 8, 2023
File: 0250-20
To: Council
From: Chair, Audit Committee
Subject: 2022 Surplus Appropriation

Report Prepared by: Finance Director, Financial Services

Recommendation:

THAT Council approves the appropriation of \$11,961,967 of surplus generated from all general fund operations in 2022 to reserves and accumulated surplus as detailed in the Report from the Audit Committee dated May 8, 2023;

Purpose:

To provide Council with a recommendation on the appropriation of \$11,961,967 of surplus to general reserves and accumulated surplus.

Background:

City Administration has recommended the appropriation to reserves and accumulated surplus of 2022 surplus generated from all general fund operations, in the amount of \$11,961,967 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 2022 of \$176,967 and an accumulated surplus balance of \$5.0 million.

The recommended appropriations to reserves are:

Equalization reserves	\$ 1,285,000
Major Recreation	5,000,000
Land Acquisition & Partnerships	4,500,000
Council Strategic Fund	1,000,000
Accumulated Surplus	<u>176,967</u>
	<u>\$11,961,967</u>

Financial/Budgetary Considerations:

The financial impact is that a total of \$11,785,000 will be transferred from surplus to reserves and \$176,967 will fall to accumulated surplus.

Considerations not applicable to this report:

Internal Circulation:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Personnel Implications:

External Agency/Public Comments:

Communications Comments:

Alternate Recommendation:

Submitted by:

Mayor Dyas, Chair, Audit Committee

cc: Councillor R.Cannan – Audit Committee
Councillor L. Stack – Audit Committee
Finance Director, Financial Services
Acting Controller
Financial Planning Manager
Grant Thornton LLP – Auditor - Mr. Tyler Neels, CPA, CA