

City of Kelowna
Open Audit Committee Meeting
AGENDA



Tuesday, April 30, 2024

1:00 pm

Knox Mountain Meeting Room (#4A)

City Hall, 1435 Water Street

	Pages
1. Call to Order	
2. Confirmation of Minutes - Chair	3 - 5
April 25, 2023	
3. Financial Services Opening Remarks - Joe	
4. 2023 Airport Financial Statements	
4.1 Auditor's Report and Airport Financial Statement - Tyler	6 - 27
4.2 Memorandum - Review of Airport Financial Statements - Shayne	28 - 36
5. 2023 Consolidated Financial Statements	
5.1 Auditor's Report and Consolidated Financial Statements - Tyler	37 - 45
5.2 Memorandum - Review of Consolidated Financial Statements - Matt	46 - 54
5.3 Notes to the Financial Statements - Matt	55 - 86
6. Financial Health Presentation - Joe	
6.1 Financial Health Indicators - presentation - Joe	87 - 94
6.2 Memorandum - 2023 Financial Health Indicators	95 - 99
7. Resolution Closing the Meeting to the Public - Chair	

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

- Annual Report

8. Adjourn to Closed Session - Chair
9. Reconvene to Open Session
10. 2023 Financial Statements
 - 10.1 Memorandum - Audit Committee Review of 2023 Surplus and Reserves - Matt 100 - 106
 - 10.2 Memorandum - 2023 Surplus from Operations - Joe 107 - 109
11. Consideration of Financial Statements and Surplus Allocation - Chair
 - 11.1 Draft Reports to Council - Audit Committee Review of 2023 Financial Statements and Recommendation 110 - 113
 - 11.2 Adoption of Financial Statements, Surplus Allocation Recommendation and Report to Council 114 - 115
12. Termination



City of Kelowna
Audit Committee Open Meeting
Minutes

Date: April 25, 2023
 Location: Knox Mountain Meeting Room (#4A)
 City Hall, 1435 Water Street

Members Present Mayor Tom Dyas, Councillors Ron Cannan and Luke Stack

Staff Present City Manager, Doug Gilchrist; City Clerk, Stephen Fleming; Divisional Director, Financial Services, Joe Sass; Financial Planning Manager, Melanie Antunes; Controller, Matt Friesen; Business Performance & Advisory Services Manager, Shelly Little; Senior Airport Finance & Corporate Services Manager, Shayne Dyrdal*

Guest Tyler Neels, Auditor Grant Thornton

(* Denotes partial attendance)

1. Call to Order - Chair

Mayor Dyas called the meeting to order at 1:01 p.m.

2. Confirmation of Minutes - 2022

Moved By Councillor Stack

THAT the Minutes of the Audit Committee Meeting of April 28, 2022 be confirmed as circulated.

Carried

3. Financial Services Opening Remarks

3.1 Financial Health Presentation

Staff:

- Displayed a PowerPoint Presentation.
- Responded to questions from the Audit Committee.

4. 2022 Airport Financial Statements

4.1 Auditor's Report and Airport Financial Statement

Tyler Neels, Auditor:

- Provided introductory remarks.
- Spoke to the Auditor's Airport letter.

4.2 Memorandum - Review of Airport Financial Statements

Staff:

- Displayed a PowerPoint Presentation.
- Financial Statements are for the year 2022.
- Spoke to the financial impacts of the pandemic, which had started in 2020 and continued into 2022, trending to normal in 2022.
- Provided comments on the Airport Financial Statements.
- Spoke to Federal funding impacts.
- Responded to questions from the Audit Committee.

5. 2022 Consolidated Financial Statements

5.1 Auditor's Report and Consolidated Financial Statements

Tyler Neels, Auditor:

- Spoke to the Auditor's Report.
- Provided opening remarks.

5.2 Memorandum - Review of Consolidated Financial Statements

Staff:

- Displayed a PowerPoint Presentation.
- Provided an overview of the Statements.
- Responded to questions from the Audit Committee.

5.3 Notes to the Financial Statements and Supporting Schedules

Staff:

- 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 Independent Audit Report

Tyler Neels, Auditor:

- Displayed a PowerPoint Presentation.
- Provided an Executive Summary.

The meeting recessed at 2:28 p.m.

The meeting reconvened at 2:34 p.m.

6. Resolution Closing the Meeting to the Public

Moved By Councillor Stack

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 Reports

Carried

7. Adjourn to Closed Session

The meeting adjourned to a closed session at 2:54 p.m.

The meeting reconvened to an open session at 3:07 p.m.

9. 2022 Financial Statements

9.1 Memorandum - Audit Committee Review of 2022 Surplus and Reserves

Staff:

- Identified the 2022 operating and utility surplus funds accumulations and expenditures.

9.2 Memorandum - 2022 Surplus from Operations

Staff:

- Spoke to the 2022 Surplus from the Operations memo dated April 25, 2023.
- Responded to questions from the Audit Committee.

Moved By Mayor Dyas

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 dated April 25, 2023.

Carried

10. Consideration of Financial Statements and Surplus Allocation

10.1 Draft Report to Council - Audit Committee Review of 2022 Financial Statements and Recommendation

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

Moved By Councillor Cannan

THAT the Audit Committee receives, for information, the Report from the Financial Services and the City Auditor dated April 25, 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 recommends the Report be forwarded to Council;

AND THAT the Audit Committee recommends to Council the appropriation of \$11,961,967 generated from all general fund operations in 2022 to reserves and accumulated surplus as detailed in the Report from the City Manager dated April 25, 2023;

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, 2022 be reprinted in and form part of the City of Kelowna's Annual Report.

Carried

11. Termination

The meeting was declared terminated at 3:36 p.m.

FINANCIAL STATEMENTS

Kelowna International Airport

Kelowna, BC Canada

For the year ended December 31, 2023

2023



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, 2023, and the statements of operations and accumulated surplus, statement of remeasurement gains, statement of changes in net financial assets and statement of 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, 2023, and its results of operations, its changes in its net assets, its remeasurement gains and losses, 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.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 3 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated. Our opinion is not modified in respect of this matter.

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 22, 2024

The logo for Grant Thornton LLP is written in a black, cursive script font. The words "Grant Thornton" are larger and more prominent, with "LLP" in a smaller font size to the right.

Chartered Professional Accountants

KELOWNA INTERNATIONAL AIRPORT

Statement of Financial Position

As at December 31, 2023

(in thousands of dollars)

	Actual 2023	Actual 2022
		(Restated - Note 3)
Financial Assets		
Cash and cash equivalents	\$ 7,131	\$ 5,215
Accounts receivable	5,810	11,426
Portfolio investments (Note 4)	55,731	38,540
	<u>68,672</u>	<u>55,181</u>
Liabilities		
Accounts payable and accrued liabilities	11,698	5,951
Performance deposits	996	929
Deferred revenue	128	525
Long term payable (Note 5)	44	393
Debenture debt (Note 6)	7,373	9,675
Asset retirement obligations (Note 7)	542	422
	<u>20,781</u>	<u>17,895</u>
Net Financial Assets	<u>47,891</u>	<u>37,286</u>
Non-Financial Assets		
Prepaid expenses	241	226
Inventory	437	328
Work in progress (Note 8)	23,463	13,075
Tangible capital assets (Note 9)	153,716	147,729
	<u>177,857</u>	<u>161,358</u>
Accumulated Surplus	<u>225,748</u>	<u>198,644</u>
Accumulated surplus is comprised of		
Accumulated surplus (Note 10)	223,602	198,644
Accumulated remeasurement gains	2,146	-
Accumulated Surplus, end of year	<u>\$ 225,748</u>	<u>\$ 198,644</u>

Contingent liabilities and Commitments (Notes 11 and 12)



Sam Samaddar, AAE, HonBA
Airport Chief Executive Officer



Joe Sass, CPA, CA
Divisional Director, Financial Services

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Operations and Accumulated Surplus
For the Year Ended December 31, 2023
(in thousands of dollars)

	Budget 2023	Actual 2023	Actual 2022
			(Restated - Note 3)
Revenue			
Sale of services (Note 14)	\$ 26,049	\$ 25,188	\$ 22,642
Interest earned	132	1,917	1,010
Government transfers (Note 15)	11,922	5,178	7,784
Actuarial increase	-	404	332
	<u>38,103</u>	<u>32,687</u>	<u>31,768</u>
Airport improvement fee (Note 13)	24,406	22,892	19,432
	<u>62,509</u>	<u>55,579</u>	<u>51,200</u>
Expenses (Note 16)			
Administration	5,977	4,960	4,246
Interest	584	584	584
Terminal operations	5,973	7,661	6,330
Airport improvement fee	-	6,041	5,499
Airport policing	230	230	183
Groundside operations	5,117	5,792	4,799
Airside operations	4,529	5,140	4,741
Write-down of tangible capital assets	-	213	38
	<u>22,410</u>	<u>30,621</u>	<u>26,420</u>
Annual Surplus	<u>\$ 40,099</u>	<u>24,958</u>	<u>24,780</u>
Accumulated surplus, beginning of year		<u>198,644</u>	<u>173,864</u>
Accumulated surplus, end of year		<u>\$ 223,602</u>	<u>\$ 198,644</u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Remeasurement Gains
For the Year Ended December 31, 2023
(in thousands of dollars)

	Actual
	<u>2023</u>
Accumulated remeasurement gains, beginning of year	\$ -
Adjustment on adoption of the financial instruments standard (Note 3)	<u>1,551</u>
	1,551
Unrealized gains attributable to	
Portfolio investments	595
Realized gains, reclassified to the consolidated statement of operations and accumulated surplus	<u>-</u>
Change in remeasurement gains	<u>595</u>
Accumulated remeasurement gains, end of year	<u><u>\$ 2,146</u></u>

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT
Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2023
(in thousands of dollars)

	Budget 2023	Actual 2023	Actual 2022
			(Restated - Note 3)
Annual Surplus	\$ 40,099	\$ 24,958	\$ 24,780
Amortization of tangible capital assets	-	8,864	8,162
Acquisition of tangible capital assets	(33,545)	(25,352)	(19,588)
Accretion on asset retirement obligation	-	20	20
Change in asset retirement obligation	-	(120)	(20)
Write-down of tangible capital assets	-	213	38
Change in inventory and prepaid expenses	-	(124)	30
Unrealized gain on investments	-	2,146	-
Increase in Net Financial Assets	6,554	10,605	13,422
Net Financial Assets, beginning of year	37,286	37,286	23,864
Net Financial Assets, end of year	\$ 43,840	\$ 47,891	\$ 37,286

See accompanying notes to the financial statements.

KELOWNA INTERNATIONAL AIRPORT

Statement of Cash Flows

For the Year Ended December 31, 2023

(in thousands of dollars)

	Actual 2023	Actual 2022
		(Restated - Note 3)
Net inflow (outflow) of cash and cash equivalents related to the following activities:		
Operating		
Annual surplus	\$ 24,958	\$ 24,780
Adjustment for non-cash items		
Amortization of tangible capital assets	8,864	8,162
Accretion on asset retirement obligation	20	20
Actuarial adjustment on debenture debt	(404)	(332)
Writedown of tangible capital assets	213	38
Unrealized gains on portfolio investments	2,146	-
(Increase) decrease in assets		
Accounts receivable	5,616	(4,821)
Inventory and prepaid expenses	(124)	30
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	5,747	3,526
Performance deposits	67	711
Deferred revenue	(397)	90
	<u>46,706</u>	<u>32,204</u>
Capital		
Acquisition of tangible capital assets	<u>(25,352)</u>	<u>(19,588)</u>
Investing		
Change in portfolio investments	<u>(17,191)</u>	<u>(10,143)</u>
Financing		
Decrease in long term payable	(349)	(350)
Repayment of debenture debt	(1,898)	(1,897)
	<u>(2,247)</u>	<u>(2,247)</u>
Net increase in cash and cash equivalents	1,916	226
Cash and cash equivalents, beginning of year	<u>5,215</u>	<u>4,989</u>
Cash and cash equivalents, end of year	\$ 7,131	\$ 5,215

See accompanying notes to the financial statements

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2023

(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 and passenger numbers returned to 2019 levels in 2023.

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.

Tangible capital assets

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

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

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

2. Significant accounting policies (continued)

Contributions of tangible capital assets

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

Asset retirement obligation

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The liability is measured at the Airport's best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date. The estimate includes costs directly attributable to the asset retirement activities, including post-retirement operations, maintenance, and monitoring integral to the retirement of the tangible capital asset. Assumptions used in the subsequent calculations are revised annually. The retirement obligations are being amortized with their respective assets following the accounting policies outlined in this note.

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 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, 2023

(in thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments

Financial instruments are contracts that give rise to the financial assets of one entity and financial liabilities or equity instruments of another entity and include cash and cash equivalents, accounts receivable, portfolio investments, accounts payable and accrued liabilities, and long-term debt. The Airport recognizes a financial instrument when it becomes party to a financial instrument contract.

Financial instruments are classified as level 1, 2 or 3, as described below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Financial instruments are initially measured at fair value and subsequently carried at fair value or cost. Transaction costs related to financial instruments measured at cost or amortized cost are added to the carrying value of the financial instrument. Transaction costs related to financial instruments recorded at their fair value are expensed as incurred.

- Fair value category: Investments quoted in an active market are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date.
Unrealized gains and losses on financial assets are recognized in the statement of remeasurement gains and losses until such time that the financial asset is derecognized due to disposal or impairment. At the time when a financial instrument in the fair value category is derecognized, the associated accumulated remeasurement gains and losses are reversed and reclassified to the statement of operations.
- Cost category: Investments not quoted in an active market, financial assets and liabilities are recorded at cost or amortized cost (using the effective interest method).
Gains and losses are recognized in the statement of operations when the financial asset is derecognized due to disposal or impairment.

Financial assets are assessed for impairment on an annual basis. If there is an indicator of impairment, the Airport determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

2. Significant accounting policies (continued)

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, 2023 and 2022.

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, asset retirement obligation, 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, 2023

(in thousands of dollars)

3. Change in accounting policies

Asset retirement obligation

The Airport adopted the new Canadian public sector accounting standard PS 3280, Asset Retirement Obligations. The new standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in retired buildings, by public sector entities. The standard was adopted on the modified retroactive basis at the date of adoption.

On January 1, 2022, the Airport recognized an asset retirement obligation relating to several buildings owned by the Airport that contain asbestos ("asbestos obligation"). The buildings were originally constructed prior to environmental standards for asbestos removal and remediation coming into effect in 1986, and the liability was measured as of when the liability was assumed. The buildings had an expected useful life of 50-75 years, and the estimate has not been changed since purchase.

In accordance with the provisions of this new standard, the Airport reflected the following adjustments as at January 1, 2022:

- Asbestos obligation:
 - An increase of \$88 to the buildings tangible capital asset account, representing the original estimate of the obligation as of the date of purchase, and an accompanying increase of \$43 to accumulated amortization, representing 25-51 years of increased amortization had the liability originally been recognized.
 - An asset retirement obligation in the amount \$402, representing the original \$88 obligation discounted to the present value amount using a rate of 4.85%.
 - A decrease to opening accumulated surplus of \$358, as a result of the recognition of the liability and accompanying increase in amortization expense and accretion expense for the 25-51 years since purchase.

Financial instruments and suite of standards

Effective January 1, 2023, the Airport adopted the new Canadian public sector accounting standards PS 3450, Financial Instruments, PS 3401 Portfolio Investments, PS 2601 Foreign Currency Translation, and Section 1201 Financial Statement Presentation along with the related amendments.

New section PS 3450 requires the fair value measurement of portfolio investments in equities quoted in an active market. All other financial instruments are measured at cost or amortized cost (using the effective interest method), or, by policy choice. The differences between financial instruments previous carrying amounts and fair value on transition was \$1,551.

The standards have been adopted prospectively and accordingly, there is no adjustment to the opening balances.

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

4. Portfolio investments

Portfolio investments are initially measured at fair value and subsequently carried at fair value or cost. Portfolio investments are comprised of:

	Level	2023	2022
Portfolio investments in the fair value category			
Municipal Finance Authority investment funds	2	\$ 15,531	\$ 13,371
Publicly traded shares	1	<u>6,366</u>	<u>4,825</u>
Total portfolio investments reported at fair value		<u>21,897</u>	18,196
Portfolio investments in the cost and amortized cost category			
Guaranteed investment certificates and deposit notes		7,972	4,372
Provincial and bank issued bonds		<u>25,862</u>	<u>15,972</u>
Total portfolio investments reported at cost and amortized cost		<u>33,834</u>	<u>20,344</u>
Total portfolio investments		<u>\$ 55,731</u>	<u>\$ 38,540</u>

5. Long-term payable

The Airport has arranged for payment terms beyond a year for certain payables amounting to \$44, as at December 31, 2023 (2022 - \$393). These payables will be paid in full by October 31, 2029 and are non-interest bearing.

6. 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	\$ 5,787	\$ 1,713	2025-10-02
9867	137	2.60	3,500	2,321	1,179	2026-04-19
9867	139	2.10	3,000	2,005	995	2026-10-05
9867	141	2.80	8,000	4,514	3,486	2027-04-07
			<u>\$ 22,000</u>	<u>\$ 14,627</u>	<u>\$ 7,373</u>	

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

2024	2025	2026	2027	2028
\$ 1,897	\$ 1,897	\$ 1,258	\$ 698	\$ -

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Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

6. Debenture debt (continued)

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:

	<u>2023</u>	<u>2022</u>
Cash deposits held by MFA	\$ 260	\$ 252
Demand notes held by MFA	1,021	1,021
	<u>\$ 1,281</u>	<u>\$ 1,273</u>

7. Asset retirement obligation

The Airport owns and operates three buildings that are known to have asbestos, which represents a health hazard upon demolition of the building and there is a legal obligation to remove it. Following the adoption of PS 3280 Asset Retirement Obligations, the Airport recognized an obligation relating to the removal and post-removal care of the asbestos in these buildings as estimated at January 1, 2022.

The buildings had useful lives of 50-75 years when they were constructed between 1971 and 1997, of which 11-50 years remain. Post-removal care is estimated to extend up to a year post the closure of the building, while demolition and construction continues. Estimated costs have been discounted to the present value using a discount rate of 4.41%.

Changes to the asset retirement obligation in the year are as follows:

	<u>2023</u>
Balance, beginning of year	\$ 422
Accretion expense	20
Revision in estimated cash flow	100
Balance, end of year	<u><u>\$ 542</u></u>

	<u>2022</u>
Balance, beginning of year	\$ -
Adjustment on adoption of asset retirement obligation standard (Note 3)	402
Balance, beginning of year, as restated	402
Accretion expense	20
Balance, end of year	<u><u>\$ 422</u></u>

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Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

8. Work in progress

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

	Land Improvements	Buildings	Infrastructure	Machinery & Equipment	Total 2023	Total 2022
Cost						
Balance, beginning of year	\$ 69	\$ 12,554	\$ 382	\$ 70	\$ 13,075	\$ 7,922
Add: additions during the year	1,033	14,871	2,628	515	19,047	5,409
Less: transfers to tangible capital assets	(1,102)	(5,042)	(2,472)	(43)	(8,659)	(256)
Balance, end of year	\$ -	\$ 22,383	\$ 538	\$ 542	\$ 23,463	\$ 13,075

9. Tangible capital assets

	Land	Land Improvement	Buildings	Infrastructure	Machinery & Equipment	Total 2023	Total 2022
(Restated - Note 3)							
Cost							
Balance, beginning of year	\$ 16,557	\$ 13,312	\$ 72,074	\$ 96,608	\$ 57,567	\$ 256,118	\$ 241,721
Add: additions (transfers) during the year	(456)	-	3,574	2,755	398	6,271	14,179
Add: transfers from work in progress	-	-	5,042	3,574	43	8,659	256
Less: write-down during the year	-	-	(170)	-	(43)	(213)	(38)
	16,101	13,312	80,520	102,937	57,965	270,835	256,118
Asset retirement obligation	-	-	188	-	-	188	88
Balance, end of year	16,101	13,312	80,708	102,937	57,965	271,023	256,206
Accumulated Amortization							
Balance, beginning of year	-	9,414	33,016	42,085	23,917	108,432	100,271
Add: amortization	-	411	2,077	3,691	2,684	8,863	8,161
Less: accumulated amortization on disposal	-	-	-	-	(34)	(34)	-
	-	9,825	35,093	45,776	26,567	117,261	108,432
Accumulated amortization on asset retirement obligation	-	-	46	-	-	46	45
Balance, end of year	-	9,825	35,139	45,776	26,567	117,307	108,477
Net book value of tangible capital assets	\$ 16,101	\$ 3,487	\$ 45,569	\$ 57,161	\$ 31,398	\$ 153,716	\$ 147,729

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Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

10. Accumulated surplus

	Reserves for future expenditure	General surplus	Investment in tangible capital assets	Total 2023	Total 2022
					(Restated - Note 3)
Accumulated operating surplus, beginning of year	\$ 45,582	\$ 2,405	\$ 150,657	\$ 198,644	\$ 173,864
Annual surplus (deficit)	1,817	31,619	(8,478)	24,958	24,780
Transfers	24,708	(24,708)	-	-	-
Acquisition of tangible capital assets	(20,137)	(5,215)	25,352	-	-
Writedown of tangible capital asset	-	213	(213)	-	-
Retirement of debt	-	(1,905)	1,905	-	-
Accumulated surplus, end of year	\$ 51,970	\$ 2,409	\$ 169,223	\$ 223,602	\$ 198,644

11. 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, 2022 the plan had about 240,000 active members and approximately 124,000 retired members. Active members included approximately 43,000 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 \$445 (2022 - \$377) for employer contributions to the plan in fiscal 2023, while employees contributed \$373 (2022 - \$313) to the plan in fiscal 2023.

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, 2023

(in thousands of dollars)

11. Contingent liabilities (continued)

Legal actions

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

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

12. Commitments

At December 31, 2023, the Airport had entered into construction commitments relating to the Airport capital program amounting to \$7,178 (2022 - \$6,627).

13. 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, 2023, the Airport recognized \$22,892 (2022 - \$19,432), in airport improvement fee revenue.

AIF fees were charged at \$25 per departing passenger (2022 - \$25).

Airport improvement fee summary since implementation to December 31, 2023:

	<u>2023</u>	<u>2022</u>
Cumulative AIF revenue	\$ 211,562	\$ 188,670
Cumulative AIF expenditures	<u>203,832</u>	<u>185,314</u>
Surplus of revenue over expenditures	<u>\$ 7,730</u>	<u>\$ 3,356</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

14. Sale of service by object

	2023	2022
Parking revenue	\$ 10,274	\$ 8,154
Airport landing fees	4,154	3,780
Airport terminal fees	3,270	2,997
Car rental concessions	3,122	3,286
Terminal concessions	1,013	739
Lease revenue	2,097	2,057
Other	1,258	1,629
	<u>\$ 25,188</u>	<u>\$ 22,642</u>

15. Government transfers

Due to the completion or progress of the projects there is a deferred revenue balance of \$nil in 2023 (2022 - \$411) related to these grants.

The Airport received and recorded as revenue the following grants:

	Type of grant	Project	2023	2022
Federal Government	Restricted	Terminal Buildings - baggage handling operations	\$ 106	\$ 96
Federal Government	Restricted	Airport Critical Infrastructure Program	2,339	6,500
Province of British Columbia	Restricted	Child Care Capital Funding Program	2,676	1,100
Province of British Columbia	Restricted	Mass Timber Demonstration Program	-	88
Federal Government	Restricted	Tourism Relief Fund	57	-
			<u>\$ 5,178</u>	<u>\$ 7,784</u>

KELOWNA INTERNATIONAL AIRPORT

Notes to the Financial Statements

December 31, 2023

(in thousands of dollars)

16. Expenses by object

Expenses reported by object comprise:

	<u>2023</u>	<u>2022</u>
		(Restated - Note 3)
Amortization of tangible capital assets	\$ 8,864	\$ 8,162
Contract and professional services	8,957	7,285
Salaries and benefits	6,260	5,657
Materials and supplies	3,580	2,614
Policing and other Municipal services	1,466	1,379
Utilities	677	681
Interest expense	584	584
Write-down of tangible capital assets	213	38
Accretion on asset retirement obligation	20	20
	<u>\$ 30,621</u>	<u>\$ 26,420</u>

17. 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	\$ 62,509
Expenses	
Operating budget	22,410
Capital budget	33,545
	<u>55,955</u>
Annual surplus per approved budget	6,554
Add: capital expenses	33,545
Annual surplus per statement of operations	<u>\$ 40,099</u>

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Memo



Date: April 30, 2024

To: Audit Committee

From: Joe Sass, Divisional Director, Financial Services

Subject: Audit Committee Review of Kelowna International Airport's December 31, 2023 Audited Financial Statements

Report Prepared by: Shayne Dyrdal, Director, Airport Finance and Corporate Services,
Parth Patel, Airport Finance 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 Remeasurement Gains
- 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, 2023 and December 31, 2022.

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, debenture debt, and asset retirement obligations.

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.

Upon adoption of new Public Sector Accounting Standards in 2023, additions to the Statement of Financial Position include asset retirement obligation liability, reporting the estimated costs associated with the legally or contractually required retirement activities for assets at their end-of-life, and the impact of unrealized gains on portfolio investments, not previously reported. Unrealized gains are reconciled against accumulated surplus on the Statement of Financial Position.

Net Financial Assets

The Airport's financial assets of \$68.7 million ("M") exceeded its liabilities of \$20.8M by \$47.9M at December 31, 2023. As a result, the Airport has sufficient financial assets to settle its existing liabilities as at December 31, 2023. The Airport's net financial assets increased \$10.6M from \$37.3M at December 31, 2022 to \$47.9M at December 31, 2023, mainly due to a \$17.2M increase in portfolio investments (including \$2.1M unrealized gains), and a \$2.3M decrease in debenture debt, which were partially offset by a \$5.6M decrease in accounts receivable, and a \$5.7M increase in accounts payable.

Financial Assets

The Airport's financial assets have increased by approximately \$13.5M from \$55.2M at December 31, 2022 to \$68.7M at December 31, 2023 due to the movements outlined below.

i. Cash and cash equivalents

Cash and Cash equivalents represent funds held in the City of Kelowna pooled funds either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The Airport's cash and cash equivalents have increased \$1.9M from \$5.2M to \$7.1M between December 31, 2022 and December 31, 2023. 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 decreased approximately \$5.6M from \$11.4M at December 31, 2022 to \$5.8M at December 31, 2023. This was mainly due to a one-time \$6.4M accrual for Airport

Critical Infrastructure Program grants in 2022, which were awarded and earned in 2022 but not received until 2023. This decrease was partially offset by grant accruals earned in 2023 but not received until 2024 of \$0.9M.

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 \$17.2M between December 31, 2022, and December 31, 2023. Included in this increase is \$2.1M in unrealized gains, as a new accounting standard effective for the 2023 fiscal year requires remeasurement of investments to fair value at each reporting date (discussed in more detail in the Statement of Remeasurement Gains below).

Liabilities

The Airport's liabilities have increased \$2.9M from \$17.9M at December 31, 2022 to \$20.8M at December 31, 2023, due to the movements outlined below:

i. Accounts payable

The Airport's accounts payable increased \$5.7M from \$6.0M at December 31, 2022 to \$11.7M at December 31, 2023 mainly due to a \$5.7M increase in trade accounts payable. The increase in payables was primarily due to more multi-year capital projects in 2023, most notably with the commencement of the air terminal building expansion during the year.

ii. Performance Deposits

The Airport's performance deposits increased by \$0.1M from \$0.9M at December 31, 2022 to \$1.0M at December 31, 2023.

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 decreased \$0.4M from \$0.5 at December 31, 2022 to \$0.1M at December 31, 2023, mainly due to \$0.4M of one-time grant funding received in advance for the Child Care Facility in 2022, which was earned and recognized during 2023.

iv. Long term payable

The Airport's long-term payable mainly consisted 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, 2022, and December 31, 2023, is due to the final annual payment made in 2023.

v. Debenture debt

The Airport's debenture debt consists of four debt issuances from the Municipal Finance Authority as outlined below. The \$2.3M decrease in debenture debt from \$9.7M at December 31, 2022 to \$7.4M at December 31, 2023 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, 2023
October 2015	10	7,500,000	5,787,000	1,713,000
April 2016	10	3,500,000	2,321,000	1,179,000
October 2016	10	3,000,000	2,005,000	995,000
April 2017	10	8,000,000	4,514,000	3,486,000
Total		\$22,000,000	\$14,627,000	\$7,373,000

vi. Asset retirement obligation

The Airport adopted a new Public Sector accounting standard during 2023, requiring the recognition of the future obligation to retire assets if specific retirement activities are legally or contractually required at time of disposal of a tangible capital asset. This resulted in a \$0.5M liability for the year ended December 31, 2023 (\$0.4M December 31, 2022) for the future remediation of three Airport buildings that contain asbestos and other hazardous building materials.

Non-financial Assets

The Airport's non-financial assets have increased \$16.5M from \$161.4M at December 31, 2022 to \$177.9M at December 31, 2023 due to the movements outlined below:

i. Prepaid expenses

The Airport's prepaid expenses have remained at \$0.2M between December 31, 2022, and December 31, 2023.

ii. Inventory

The Airport's inventory consists of chemicals, fuel, and supplies. Inventory increased \$0.1M from \$0.3M at December 31, 2022 to \$0.4M at December 31, 2023.

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 \$10.4M from \$13.1M to \$23.5M between December 31, 2022, and December 31, 2023. Notable projects that were in progress at December 31, 2023 include the Airport Terminal Building Expansion (\$9.7M) and construction for the Combined Operations Building (\$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 \$6.0M from \$147.7M at December 31, 2022, to \$153.7M at December 31, 2023, due to additions of \$14.9M (transfer from work in progress represents \$8.7M), offset by the recognition of \$8.9M in amortization. The additions in 2023 included the Child Care Facility (\$4.3M), the runway end safety area (\$2.6M), Apron 3 pavement rehabilitation project (\$2.4M), and the roof replacement project (\$1.7M). The Child Care Facility was fully funded through grant funding through the Child Care BC New Spaces program, and the roof replacement received grant funding at 50% of total cost up to \$0.8M through the Airport Critical Infrastructure Program.

Accumulated Surplus

The Airport's accumulated surplus increased by \$25.0M from \$198.6M at December 31, 2022 to \$223.6M at December 31, 2023. The Airport's cumulative revenues exceed its cumulative expenditures by \$223.6M as at December 31, 2023. 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, 2023, and December 31, 2022. This statement provides a summary of the Airport's operations during 2023 and 2022.

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 2023 and do not include any transfers or amendments that were subsequently approved.

Annual surplus

The Airport had an annual surplus of \$25.0M for the year ended December 31, 2023, due to revenues of \$55.6M exceeding expenditures of \$30.6M. The Airport's annual surplus increased by \$0.2M between 2022 and 2023, as revenues increased by \$4.4M while expenditures increased by \$4.2M. 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 \$28.2M, as shown below.

	Year ended December 31, 2023
Annual surplus	\$ 24,958,000
Add: amortization	8,864,000
Less: conditional transfers (reimbursement of capital expenditures)	(5,178,000)
Less: actuarial increase for debenture debt	(404,000)
	\$ 28,240,000

It's also important to note that the Airport's annual surplus of \$25.0M is mainly driven from the Airport Improvement Fee revenues of \$22.9M. The Airport Improvement Fee revenues can only be used to fund the construction and/or purchase of tangible capital assets and any associated debt. Excluding the Airport Improvement Fee revenues, the Airport's annual operating surplus is, as shown below.

	Year ended December 31, 2023
Annual surplus	\$ 24,958,000
Less: Airport Improvement Fee revenues	(22,892,000)
	\$ 2,066,000

Revenue

The Airport's revenues consist of sale of services, interest earned, transfers from the Government, and the actuarial increase. Total revenues increased by \$4.4M from \$51.2M to \$55.6M between 2022 and 2023. Passenger numbers increased from 1.7M in 2022 to 2.0M in 2023, returning to pre-pandemic levels for the first time since 2019, which resulted in an increase in revenues, as outlined below:

i. Sale of services

The Airport's sale of services of \$25.2M consists of vehicle parking revenues (\$10.3M), landing fees (\$4.2M), terminal fees (\$3.3M), car rental fees (\$3.1M), lease revenues (\$2.1M), other revenues (\$1.3M), and terminal concessions (\$1.0M). Sale of services increased \$2.6M between the years ended December 31, 2022, and December 31, 2023, mainly due to a \$2.1M increase in parking revenues.

ii. Interest earned

The Airport earned an additional \$0.9M of interest during the year ended December 31, 2023, compared to the year ended December 31, 2022, due to higher interest rates during the year and an increase in cash and cash equivalents and portfolio investments that were invested.

iii. Government transfers

The Airport's grants from the federal and provincial government decreased \$2.6M between the year ended December 31, 2022, and the year ended December 31, 2023. Grants received from the Federal Airport Critical Infrastructure Program decreased \$4.2M from 2022 to 2023 as two of the funded projects were substantially completed during 2022. Three additional projects continued into 2023, with one more completed during the year. The Provincial Child Care Capital Funding Program grant received in 2023 was a \$1.6M increase compared to 2022, and this project was also completed during the year.

iv. Actuarial Increase

The actuarial increase for the Airport's debenture debt increased \$0.1M between the years ended December 31, 2023, and December 31, 2022.

v. Airport improvement fees

The Airport earned \$3.4M more in airport improvement fees (AIF) during the year ended December 31, 2023, than the year ended December 31, 2022. This is due to an 18% increase in enplaned passengers in 2023.

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 \$4.2M from \$26.4M to \$30.6M between the years ended December 31, 2022, and December 31, 2023. Further details are outlined in the following:

i. Administration

Administration expenditures increased by \$0.7M between the years ended December 31, 2022, and December 31, 2023. Notable changes in administration expenditures include an increase in wages and salaries of \$0.4M.

ii. Terminal expenditures

Terminal expenditures consist of expenditures associated with the operation and maintenance of the Airport's terminal building. Terminal expenditures increased by \$1.4M between 2022 and 2023 from \$6.3M to \$7.7M. This is primarily due to cost increases for facility maintenance of \$0.5M, and software maintenance of \$0.3M as passenger levels returned to pre-pandemic levels as well as the result of inflationary pressures.

iii. Airport Improvement Fee expenditures

Airport Improvement Fee expenditures increased \$0.5M from \$5.5M in 2022 to \$6.0M in 2023 due to an increase in amortization expense (\$0.5M) resulting from the completion of projects in 2023 including the runway end safety area construction, terminal building improvements, and airside pavement rehabilitation.

iv. Groundside expenditures

Groundside expenditures consist of the costs associated with operating and maintaining the Airport lands outside of the airside area, excluding the terminal building. Groundside expenditures increased by \$1.0M between 2022 and 2023 from \$4.8M to \$5.8M. The increase is mainly due to a full year under the new parking management contract implemented in 2022 that resulted in an increase of \$0.4M in 2023.

v. Airside expenditures

Airside expenditures consist of the costs associated with operating and maintaining the Airport lands within the security perimeter including the apron, taxiways, and runway, but excluding the terminal building. Airside expenditures increased by \$0.4M from \$4.7M in 2022 to \$5.1M in 2023. The increase is mainly due to increased professional and consulting services (\$0.2M).

When expenditures are assessed for the Airport rather than by business segment, expenditures by type increased between 2022 and 2023, as outlined below:

i. Amortization expense

Amortization expense increased \$0.7M from \$8.2M in 2022 to \$8.9M in 2023, due to asset additions of \$14.9M during 2023.

ii. Contract and professional services

Contract and professional services increased \$1.7M between the years ended December 31, 2022, and December 31, 2023 from \$7.3M to \$9.0M, mainly due to contracted services inflationary escalations and increased consulting fees with growth in operations and return to pre-pandemic operating levels during 2023.

iii. Salaries and benefits

Salaries and benefits increased \$0.6M from \$5.7M to \$6.3M between the years ended December 31, 2022, and December 31, 2023. This is mainly due to the hiring of positions that were not filled during the pandemic, the addition of new positions during the year, and annual salary and wage increases.

iv. Materials and supplies

The cost of materials and supplies increased \$1.0M between the years ended December 31, 2022, and December 31, 2023, mainly due to increased growth in operations and continued significant inflationary increases.

v. Policing and other Municipal services

Policing and other Municipal services increased \$0.1M from \$1.4M in 2022 to \$1.5M in 2023.

Statement of Remeasurement Gains

The Airport's Statement of Remeasurement Gains reports the unrealized gains and losses on financial instruments due to remeasurement to fair market value at December 31, 2023. This statement is new for fiscal year 2023, implemented due to a new public sector accounting standard. Adjustment on adoption resulted in an unrealized gain on portfolio investments at December 31, 2022 of \$1.5M. Change in remeasurement gains on portfolio investments during 2023 of \$0.6M resulting in accumulated remeasurement gains of \$2.1M at December 31, 2023.

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 \$10.6M from \$37.3M at December 31, 2022 to \$47.9M at December 31, 2023. This is attributed to an annual surplus after depreciation of \$25.0M combined with depreciation of \$8.9M, which was partially offset by the acquisition of \$25.4M of tangible capital assets.

Statement of Cash Flows

The Airport's Statement of Cash Flows outlines the cash generated and used by the Airport's operations, capital activities, investing activities and financing activities. The Airport's cash and cash equivalents increased \$1.9M between December 31, 2022, and December 31, 2023, as the Airport generated \$46.7M in

cash from operations, changed \$17.2M in cash to portfolio investments, acquired \$25.4M of tangible capital assets, and repaid debenture debt principal of \$1.9M.

Notes to the 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 and passenger numbers returned to 2019 levels in 2023.

Contingent Liability

Pension Liability

During the year ended December 31, 2023, the Airport paid \$0.4M for employer contributions to the Municipal Pension Plan.

Commitments

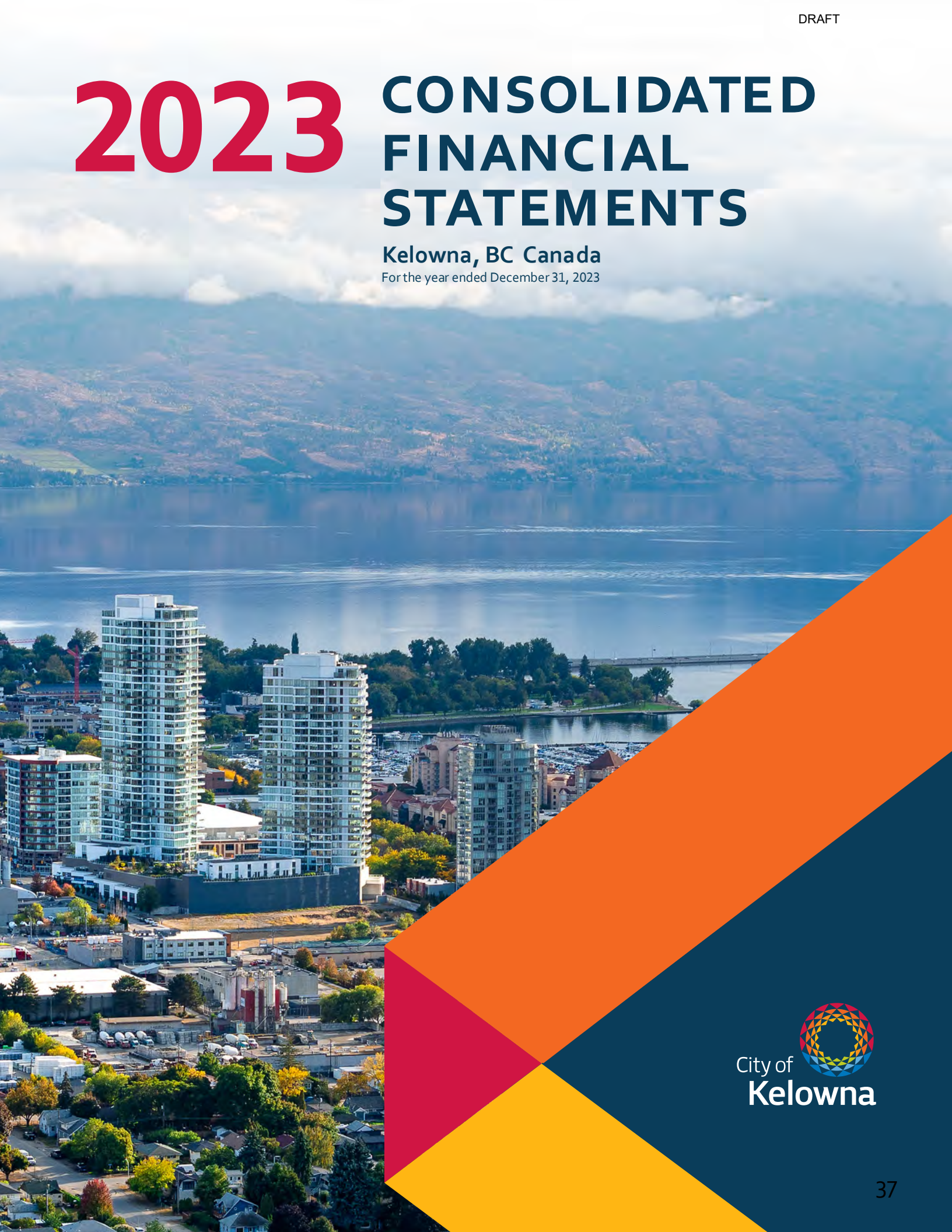
At December 31, 2023, the Airport had entered into commitments of \$7.2M.

This concludes the review of the Airport's Audited Financial Statements for the years ended December 31, 2023, and December 31, 2022.

2023 CONSOLIDATED FINANCIAL STATEMENTS

Kelowna, BC Canada

For the year ended December 31, 2023



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, 2023, and the consolidated statements of operations and accumulated surplus, consolidated statement of remeasurement gains and losses, 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 as at December 31, 2023, and the results of operations, its remeasurement gains and losses, 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 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.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 2 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated. Our opinion is not modified in respect of this matter.

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 30, 2024

Chartered Professional Accountants

CITY OF KELOWNA
Consolidated Statement of Financial Position
As at December 31, 2023
(in thousands of dollars)

	2023	2022 (Restated - Note 2)
Financial Assets		
Cash and cash equivalents (Note 3)	\$ 108,228	\$ 91,524
Accounts receivable (Note 3)	76,848	55,130
Accrued interest	8,072	2,997
Portfolio investments (Note 3)	845,875	676,316
Long term investments (Note 10)	6,000	6,000
Assets held for resale	4,371	12,467
	<u>1,049,394</u>	<u>844,434</u>
Liabilities		
Accounts payable and accrued liabilities	83,474	50,922
Performance deposits	48,247	43,382
Deferred revenue (Note 3)	81,639	57,597
Deferred development cost charges (Note 3)	213,684	148,141
Long term debt (Note 3)	65,720	70,920
Asset retirement obligations (Note 18)	40,014	32,323
	<u>532,778</u>	<u>403,285</u>
Net Financial Assets (Debt)	<u>516,616</u>	<u>441,149</u>
Non-Financial Assets		
Prepaid expenses	6,585	6,528
Inventory	1,553	1,454
Work in progress (Note 4)	73,102	43,489
Tangible capital assets (Note 4)	1,907,673	1,843,347
	<u>1,988,913</u>	<u>1,894,818</u>
Accumulated Surplus	<u>\$ 2,505,529</u>	<u>\$ 2,335,967</u>
Accumulated Surplus is comprised of:		
Accumulated surplus (Note 5)	2,472,954	2,335,967
Accumulated remeasurement gains (losses)	32,575	-
Accumulated Surplus	<u>\$ 2,505,529</u>	<u>\$ 2,335,967</u>

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

Joe Sass, CPA, CA
Divisional Director, Financial Services

See accompanying notes to the consolidated financial statements.

Tom Dyas
Mayor, City of Kelowna

CITY OF KELOWNA

Consolidated Statement of Operations and Accumulated Surplus

For the Year Ended December 31, 2023

(in thousands of dollars)

	Budget 2023	Actual 2023	Actual 2022 (Restated - Note 2)
Revenue			
Taxation (Note 6)	\$ 190,930	\$ 192,053	\$ 184,627
Fees and charges	168,384	181,426	161,823
Interest earned	12,707	27,955	16,308
DCC contributions	55,192	37,555	16,775
Government transfers (Note 7)	54,233	65,545	38,751
Other capital contributions	482	4,296	5,154
Gain on disposal of tangible capital assets	-	484	1,374
	<u>481,928</u>	<u>509,314</u>	<u>424,812</u>
Expenses			
General government	51,400	60,105	49,219
Protective services	92,835	95,612	77,477
Transportation	48,010	66,622	68,880
Recreation & cultural	43,202	49,468	46,824
Other services	25,861	27,976	27,084
Airport	22,592	30,367	26,487
Wastewater	14,275	24,007	23,598
Water	13,011	16,819	15,889
Loss on disposal of tangible capital assets	-	140	62
Write down of tangible capital assets	-	1,211	218
	<u>311,186</u>	<u>372,327</u>	<u>335,738</u>
Annual Surplus	<u>\$ 170,742</u>	<u>136,987</u>	89,074
Accumulated Surplus, beginning of year		<u>2,335,967</u>	<u>2,246,893</u>
Accumulated Surplus, end of year		<u>\$ 2,472,954</u>	<u>\$ 2,335,967</u>

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA

Consolidated Statement of Remeasurement Gains and Losses

For the Year Ended December 31, 2023

(in thousands of dollars)

	Actual 2023
Accumulated remeasurement gains (losses), beginning of year	\$ -
Adjustment on adoption of the financial instruments standard	27,217
	<u>27,217</u>
Unrealized gains (losses) attributable to:	
Portfolio investments	5,358
	<u>5,358</u>
Change in remeasurement gains and (losses)	<u>5,358</u>
Accumulated remeasurement gains (losses), end of year	<u><u>\$ 32,575</u></u>

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA

Consolidated Statement of Changes in Net Financial Assets (Debt)

For the Year Ended December 31, 2023

(in thousands of dollars)

	Budget 2023	Actual 2023	Actual 2022 (Restated - Note 2)
Annual Surplus	\$ 170,742	\$ 136,987	\$ 89,074
Amortization of tangible capital assets	-	69,449	69,278
Proceeds from disposal of tangible capital assets	-	3,044	2,274
Gain on disposal of tangible capital assets	-	(345)	(1,312)
Write down of tangible capital assets	-	1,211	218
Acquisition of tangible capital assets	(363,601)	(159,814)	(104,913)
Contributions of tangible capital assets	-	(1,352)	(1,718)
Change in asset retirement obligations estimate	-	(6,132)	-
Unrealized gains (losses) on portfolio investments	-	32,575	-
Change in inventory and prepaid expenses	-	(156)	3,182
Increase (decrease) in Net Financial Assets (Debt)	(192,859)	75,467	56,083
Net Financial Assets (Debt), beginning of year	441,149	441,149	385,066
Net Financial Assets (Debt), end of year	\$ 248,290	\$ 516,616	\$ 441,149

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2023
(in thousands of dollars)

	2023	2022 (Restated - Note 2)
Net inflow (outflow) of cash and cash equivalents related to the following activities		
Operating		
Annual surplus	\$ 136,987	\$ 89,074
Adjustment for non-cash items		
Amortization of tangible capital assets	69,449	69,278
Accretion expense	1,559	1,496
Gain on disposal of tangible capital assets	(345)	(1,312)
Write down of tangible capital assets	1,211	218
Actuarial adjustment on long term debt	(2,337)	(2,331)
Contributions of tangible capital assets	(1,352)	(1,718)
Unrealized gains (losses) on portfolio investments	32,575	-
Decrease (increase) in		
Accounts receivable	(21,718)	(7,680)
Inventory and prepaid expenses	(156)	3,182
Other assets	3,021	231
Increase (decrease) in		
Accounts payable and accrued liabilities	32,553	4,590
Deferred development cost charges	65,543	23,556
Other liabilities	28,906	15,787
	<u>345,896</u>	<u>194,371</u>
Capital		
Acquisition of tangible capital assets	(159,814)	(104,913)
Proceeds from disposal of tangible capital assets	3,044	2,274
	<u>(156,770)</u>	<u>(102,639)</u>
Investing		
Change in investments	<u>(169,559)</u>	<u>(95,606)</u>
Financing		
Proceeds from issuance of long term debt	4,902	441
Repayment of long term debt	(7,765)	(8,808)
	<u>(2,863)</u>	<u>(8,367)</u>
Net increase (decrease) in cash and cash equivalents	<u>16,704</u>	<u>(12,241)</u>
Cash and cash equivalents, beginning of year	<u>91,524</u>	<u>103,765</u>
Cash and cash equivalents, end of year	<u>\$ 108,228</u>	<u>\$ 91,524</u>
Non-cash capital activities		
Acquisition of tangible capital assets through contributions (Note 4)	\$ 1,352	\$ 1,718

See accompanying notes to the consolidated financial statements.

Memo



Date: April 30, 2024
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of December 31, 2023 Consolidated Financial Statements
Report Prepared by: 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 Remeasurement Gains and Losses
- Consolidated Statement of Changes in Net Financial Assets (Debt)
- Consolidated Statement of Cash Flows, and;
- Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position

This statement presents the Net Financial Assets, Non-Financial Assets and Accumulated Surplus as at December 31, 2023 and December 31, 2022 and represents the cumulative impact of past transactions and events on future revenue requirements and service capacity.

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

of accounts payable and accrued liabilities, performance deposits, deferred revenue, deferred development cost charges, long-term debt and asset retirement obligations.

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 \$ 1.05BM exceeded its liabilities of \$532.8M at December 31, 2023. As a result, the City's net financial assets increased by \$75.5M from \$441.1M at December 31, 2022 to \$516.6M at December 31, 2023 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 \$169.6M increase in portfolio investments, offset by an increase of \$65.5M in deferred development cost charges and an increase of \$32.6M in accounts payable and accrued liabilities. 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 \$205.0M from \$844.4M at December 31, 2022 to \$1.05B at December 31, 2023.

A. Cash and Cash Equivalents

Cash and cash equivalents represent funds held in the City either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The City's cash and cash equivalents increased \$16.7M for the year ended December 31, 2023. Further details on this movement have been included below under the discussion of the Statement of Cash Flows.

B. Accounts Receivable

The 2023 balance of \$76.8M is an increase of \$21.7M over the prior year. This is primarily due to a \$18.9M increase in development cost charges receivable from development applications received late in the year.

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 \$169.6M in 2023 from \$676.3M in 2022 to \$845.9M. The mandated adoption of the new PSAB standard on reporting for financial instruments created an unrealized write-up in investment values of \$32.6M. The remaining increase resulting from cash flows from operating activities of \$345.9M being more than adequate to fund capital expenditures of \$159.8M and net debt repayments of \$7.8M. Also, the City received \$3.0M from sale of other assets.

D. Assets Held For Sale

Assets held for sale decreased by \$8.1M in 2023 from \$12.5M in 2022. In 2023, the agreement to support the District of Lake Country (DLC) in the acquisition of the CN lands for the rail trail was completed with the sale of \$2.5M in land to DLC. Another \$5.5M in various land parcels were transferred to non-financial assets resulting from a reassessment of their potential uses.

Liabilities

A. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by \$32.6M to \$83.5M in 2023 from \$50.9M at the end of 2022. The change in balance results from the timing of trade accruals of \$23.1M and an \$8.2M accrual for the RCMP retroactive increase.

B. Performance Deposits

At the end of 2023, performance deposits totaled \$48.2M, an increase of \$4.9M over 2022 due to new projects outpacing project completions from 2022. New projects with significant performance deposits for 2023 include \$2.2M for Frost Road developments and \$1.1M for the Killdeer Rd subdivision.

C. Deferred Revenue

Deferred revenues increased from \$57.6M at December 31, 2022 to \$81.6M at December 31, 2023, an increase of \$24.0M. The increase included deferred grant revenue for \$10.0M for the PRC and Mission and Glenmore Activity Centres, \$8.0M for the Housing Accelerator Fund, \$3.0M for the Turtle Lake Dam grant, and \$1.3M relating to the Next Generation 911 Grant.

D. Deferred Development Cost Charges (DCC)

Deferred DCCs increased by \$65.5M to \$213.7M at December 31, 2023 from \$148.1M at December 31 2022 with an increase in applications in 2023 due to the final grandfathering from the process changed by the 2022 DCC bylaw updated. 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. Further details on the notable project expenditures from DCC revenue is included under the discussion of the Statement of Operations and Accumulated Surplus.

E. Asset Retirement Obligation

The asset retirement obligation is a new line item in the City's 2023 financial statements arising from the adoption of the new PSAB standard to address the reporting of legal obligations associated with the retirement of certain tangible capital assets. The standard was adopted retrospectively which means the balances for the year end balances for December 31, 2022 were also restated to comply with the new standard. Year-over-year the estimated asset retirement obligation liability increased by \$7.7M which was largely attributable to the variance in rates used in calculating the estimate.

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 increased to a total of \$1.99B in 2023 from \$1.89B in 2022 driven largely by the acquisition of work in progress and tangible capital assets.

A. 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 \$29.6M to a balance of \$73.1M. The change in WIP is the result of:

- An increase of \$90.2 for projects started but not completed include:
 - \$9.7M for the Airport Terminal (ATB) Expansion
 - \$8.8M for the South Perimeter 1 Rd.
 - \$6.1M for the Stockpiles and Reprocessing Areas Relocation
 - \$4.9M for the Rutland Centre Sewer Connection
 - \$4.6M for the Mill Creek Diversion
 - \$3.7M for the ATC - Hollywood Rd. to Rutland Rd.
 - \$3.6M for the ATC – Casorso Rd.
 - \$3.6M for the Knox Mountain Geotechnical Engineering
 - Various other projects totaling less than \$3M each

- A decrease of \$60.6M for projects completed and capitalized in 2023 include:
 - \$9.3M for the South Perimeter 1 Rd.
 - \$6.1M for the Mill Creek Diversion
 - \$5.4M for City Hall improvements
 - \$4.3M for the Airport Childcare Facility
 - \$4.1M for the ATC – Hollywood Rd. to Rutland Rd.
 - \$3.6M for the ATC Casorso Rd.
 - \$3.5M for the Pandosy Waterfront Park, Phase 1
 - \$3.0M for the Kelowna Family Y – Mechanical & Electrical Renewal
 - Various other projects totaling less than \$3M each

Accumulated Surplus

The City's net financial assets of \$516.6M and non-financial assets of \$1.99B total \$2.51B, 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, 2023 and December 31, 2022. 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 April 2023, 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 (Debt) discussion.

Revenue

A. Fees and Charges

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

These fees increased by \$19.6M to \$181.4M in 2023 and is mainly attributable to some high value building permits and an increase in passenger levels at the Airport which resulted in increases to terminal fees and AIF revenue.

B. 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. With the increase of cashflows, our treasury branch was able to continue their investment strategy which increased our investment portfolio in order to maximize our return on cash. Interest earned increased by \$11.6M to \$28.0M in 2023 primarily due to the implementation of this investment strategy and significant increases in interest rates from 2022 to 2023 with average rates of 1.99% in 2022 and 3.4% in 2023.

C. DCC Contributions

This revenue represents the amount drawn from previously assessed and collected development cost charges (DCC) to fund current year expenditures for parkland acquisition and development, and infrastructure spending. Contributions drawn to fund current year expenditures increased by \$20.8M to \$37.6M in 2023 primarily due to the completion of more DCC funded projects in 2023 than 2022. The value of Parks DCC funded projects increased \$14.0M and Transportation DCC funded projects increased by \$10.1M. The DCC funding was offset by a reallocation of funding from DCC for the Cedar Creek Pump Station of \$3.2M.

In 2023 a total of \$37.6M in DCC funds were drawn from deferred revenue and allocated to the following projects:

- \$15.0M for Parkland Acquisition – 3896 Truswell Rd.
- \$6.3M for Parkland Acquisition – Barlee Rd.
- \$5.9M for South Perimeter 1 Rd. (Gordon Dr. to Stewart 1)
- \$3.8M for Sutherland 3 (Mill Creek to Spall)
- \$1.1M for ATC - Hollywood Rd. to Rutland Rd.
- \$1.1M for ATC – Casorso Rd.
- \$1.0M for Parkland Acquisition – 1450 Steele Rd.
- \$1.0M for Mission Recreation Softball Diamonds
- \$1.0M for Pandosy Waterfront Park, Phase 1

The \$37.6M in DCC funds used in 2023 was less than the DCC levies received of \$97.4M and interest earned on these funds of \$5.7M.

D. Government transfers

These contributions include funding for both operating and capital undertakings. There was an increase in 2023 of \$26.8M to \$65.5M primarily due to the receipt of \$26M for the Growing Communities Grant and the increase in funding realized in 2023 due to further completion of wastewater multiyear projects.

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 2023 total expenses increased by \$36.6M.

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 \$10.9M in spending to \$60.1M in 2023 over 2022. The increase is attributed to a \$1.6M increase in interest costs with the escalation in prime rate, the reallocation of the Social Development branch expenses from the Recreation & Cultural segment of \$1.6M, \$1.3M in expenses for cyber security and service-based budgeting, \$1.2M in price escalations in supplies and maintenance and \$1.0M in additional insurance premiums and security related costs.

B. Protective Services

There was an increase of \$18.1M to \$95.6M over 2022 primarily due to RCMP contract increases and retroactive pay along with staffing.

C. Airport

Airport expenses include terminal, groundside, airside, and administration costs as well as interest and amortization. There was an increase in expense of \$3.9M to \$30.4M in 2023 over the prior year. Increases are primarily attributed to \$1.3M in price escalations and maintenance, \$0.9M from increased purchased services and a new process of recording parking management and \$0.7M in additional amortization.

Annual Surplus

The annual surplus increased by \$47.9M to \$137.0M in 2023 as revenues increased by 20% while expenses only increased by 11% over 2022.

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 \$137.0M, the accumulated surplus increased from \$2.34B to \$2.47B. 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 Remeasurement Gains and Losses

New for the year ended 2023, under the direction of PSAB, requirements for reporting financial instruments gave rise to the presentation of their gains and losses on the Statement of Remeasurement Gains and Losses. This statement demonstrates the City's unrealized changes in the fair value of its investments/instruments and foreign exchange, when applicable. The Statement is implemented from 2023 onward. At the end of 2023 the City recorded \$5.3M in unrealized, year-over-year, gains in the market value of its portfolio investments increasing the 2023 balance of accumulated remeasurement gains to \$32.6M.

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 \$75.5M from \$441.1M at December 31, 2022 to \$516.6M at December 31, 2023.

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 \$137.0M and adds or subtracts the following:

- Adds back the non-cash amortization of \$69.4M which represents the value of tangible capital assets used in the year to provide services;
- Adds the proceeds for the disposal of tangible capital assets of \$3.0M which is comprised of proceeds from land sales and equipment disposals;
- Subtracts the gain on sale of tangible capital assets which represent the net gain over net book value from land sales and equipment sales of (\$0.3M);
- Adds the write down for impaired assets of \$1.2M;
- Subtracts the acquisition and contribution of tangible capital assets in the current year of (\$161.2M);
- Subtracts the change in asset retirement obligation of (\$6.1M);
- Adds the total unrealized gains on portfolio investments of \$32.6M, and;
- Subtracts the increase of inventory and prepaid expense of (\$0.2M).

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 \$73.1M.

General fund tangible capital asset acquisitions for 2023 totaled \$114.0M and include:

Land of \$33.4M largely comprised of Parkland Acquisitions for \$ 27.7M, and a property acquisition for \$5.7M.

Buildings capital expenditures of \$4.0M which is largely comprised of Parkinson Rec Renewal \$1.1M, Sutherland 3 roadway property acquisition \$0.5M, Firehall boiler replacements \$0.5M and Parkland Building acquisitions for \$0.5M.

Infrastructure capital expenditures were \$9.1M which largely comprised of the following projects: Road resurfacing \$3.0M, Outdoor recreation renewal (various) \$1.6M, Landfill infrastructure renewal \$0.9M, \$0.9M Street Light Renewal \$0.9M, Sidewalk and Safety projects \$0.6M and Active Transportation Corridor \$0.5M.

Machinery & Equipment capital expenditures were \$4.8M which was comprised Fleet additions \$3.3M and Other Equipment \$1.5M.

Work in progress expenditures were \$55.6M comprised of Infrastructure \$44.7M, Buildings \$6.4M, Machinery & Equipment \$3.5M and Land Improvements \$1.0M.

Airport fund capital acquisitions were \$25.9M and include:

Terminal upgrades and replacements \$2.9M, Runway and Groundside projects \$2.8M and work in progress Terminal and Combined Operations buildings \$19.0M.

Wastewater fund capital acquisitions were of \$14.4M:

Work in progress expenditures for the Rutland Centre, Rialto and K.L.O Rd Sewer Connection projects \$6.3M, Land North of Cawston and Coronation project \$2.7M, South Pandosy Main Replacements \$1.1M and Treatment Odour Control Media Replacement \$1.0M.

Water fund capital acquisitions were \$5.5M and included:

Water Network and Facility renewal \$2.3M, Water Meter Replacement – stage 3 of \$1.4M, and work in progress of \$1.3M.

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 2023 of \$108.2M is an increase of \$16.7M. 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 \$345.9M that were used in the acquisition of new tangible capital assets of \$159.8M (net of \$1.4M which were funded through developer contribution). Proceeds from the sale of land and vehicles generated \$3.0M while repayment of debt, net of new debt borrowings was \$2.9M. The balance flowed into portfolio investments which increased by \$169.6M 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 \$345.9M in 2023 up from \$194.4M 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 - \$69.4M
- Write down of tangible capital assets - \$1.2M
- Developer contributed assets – Land: 2018 Kentucky Crescent, 5200 Gordon Drive, 1601 Cara Glen Way (530 Caramillo Court).
- 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 \$54.9M to \$159.8M in 2023 from \$104.9M in 2022. Expenditures occurred in the following funds:

	<u>2023</u>	<u>2022</u>
General fund	\$114.0	\$67.3
Airport fund	25.9	19.6
Wastewater fund	14.4	11.8
Water fund	5.5	6.2

Proceeds on disposal of tangible capital assets increased by \$0.7M to \$3.0M from \$2.3M in 2022. Proceeds in 2023 were \$2.8M from land sales and \$0.2M from vehicle disposals. Proceeds in 2022 were \$2.0M from land sales and \$0.3M from vehicle disposals.

Investing:

Portfolio investments increased by \$169.6M in 2023 compared to 2022. The mandated adoption of the new PSAB standard on reporting for financial instruments created an unrealized write-up in investment values of \$32.6M. The remaining increase resulting from cash flows from operating activities being more than adequate to fund capital expenditures and net debt repayments.

Financing:

New debt increased by \$4.9M in 2023 compared to \$0.4M in 2022.

Repayment of debt decreased \$1.0M over 2022.

This concludes the review of the audited consolidated financial statements for the year ended December 31, 2023.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(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>2023</u>	<u>2022</u>
Cash deposits held by MFA	\$ 1,854	\$ 1,799
Demand notes held by MFA	4,013	4,015
	<u>\$ 5,867</u>	<u>\$ 5,814</u>

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

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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%.

Financial instruments

Financial instruments are contracts that give rise to the financial assets of one entity and financial liabilities or equity instruments of another entity and include cash and cash equivalents, accounts receivable, portfolio investments, accounts payable and accrued liabilities, and long term debt.

Financial instruments are classified as level 1, 2 or 3, as described below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Financial instruments are measured at fair value or cost.

- Fair value category: investments quoted in an active market are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date.

Unrealized gains and losses on financial assets are recognized in the consolidated statement of remeasurement gains and losses until such time that the financial asset is derecognized due to disposal or impairment. At the time when a financial instrument in the fair value category is derecognized, the associated accumulated remeasurement gains and losses are reversed and reclassified to the consolidated statement of operations.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

- Cost category: Investments not quoted in an active market, financial assets and liabilities are recorded at cost or amortized cost. Gains and losses are recognized in the consolidated statement of operations when the financial asset is derecognized due to disposal or impairment.

Financial assets are assessed for impairment on an annual basis. If there is an indicator of impairment, the City determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset.

Asset retirement obligations

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

The liability for closure of the operational site and post-closure care relating to the landfill site has been recognized based on estimated future expenses. An additional liability has been recognized based on the estimated future expenses associated with asbestos removal during construction or disposal of structures owned by the City of Kelowna. Under the modified retroactive method, the discount rate and assumptions used on initial recognition are those as of the date of adoption of the standard. Assumptions used in the subsequent calculations are revised annually.

The liability is discounted using a present value calculation and adjusted annually for accretion expense. The recognition of a liability resulted in an accompanying increase of the respective tangible capital assets. The landfill tangible capital asset is amortized using the units of production method, while the structures tangible capital assets, affected by the asbestos liability, are being amortized along with their respective assets following the amortization accounting policies outlined in Note 1.

Work in progress

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

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 reasonably determinable.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

Amortization

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

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

Land and Work in Progress are not amortized.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

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(in thousands of dollars)

Revenue recognition

Taxation revenue

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

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

Fees and charges revenue

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

Development Cost Charges (DCC) contributions

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

Government transfers

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

Investment income

The City's investments are disclosed in Note 3.

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

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

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

Expenses

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

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

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(in thousands of dollars)

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.

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 asset retirement obligations, tangible capital assets estimated useful life and related amortization, allowance for doubtful accounts, contaminated site liabilities, and settlement costs associated with outstanding legal actions.

2. Change in accounting policies

Asset Retirement Obligations

On January 1, 2022, the City adopted Canadian Public Sector Accounting Standard PS 3280 Asset Retirement Obligations. The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in retired buildings by public sector entities. The new accounting standard has resulted in a withdrawal of the existing accounting standard PS 3270 Solid Waste Landfill Closure and Post-Closure Liability. The standard was adopted on the modified retroactive basis at the date of adoption.

The City removed the landfill liability that had been recognized to date and recognized an asset retirement obligation upon adoption of PS 3280 on January 1, 2022, using the modified retroactive method. The liability represents the required closure and post-closure care for the landfill site owned by the City. The landfill site was purchased in 1966, and the liability was measured as of the date of purchase, when the liability was assumed. As of the date of adoption of the standard, the relevant discount rate is 4.85% per annum.

On January 1, 2022, the City recognized an additional asset retirement obligation relating to structures owned by the City that contain asbestos. The liability was measured as of the date of purchase of the structures, when the liability was assumed. The expected useful lives of the structures have not been changed since purchase.

In accordance with the provisions of this new standard, the City reflected the following adjustments at January 1, 2022:

Landfill obligation:

- A decrease of \$4,429 to the landfill liability to remove the liability recognized to date under PS 3270, and an accompanying increase of \$4,429 to opening accumulated surplus.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

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(in thousands of dollars)

- An increase of \$1,991 to the landfill tangible capital asset account, representing the original estimate of the obligation as of the date of purchase, and an accompanying increase of \$684 to accumulated amortization, representing 56 years of increased amortization had the liability originally been recognized.
- An asset retirement obligation in the amount of \$26,961, representing the original \$638,018 obligation discounted to the present value amount using a rate of 4.85%.
- A decrease to opening accumulated surplus of \$25,654, as a result of the recognition of the liability and accompanying increase in amortization expense and accretion expense for the 56 years since purchase.

Asbestos obligation:

- An increase of \$750 to the structures tangible capital asset accounts, representing the original estimate of the obligation as of the date of purchase, and an accompanying increase of \$429 to accumulated amortization, representing increased amortization had the liability originally been recognized.
- An asset retirement obligation in the amount of \$3,866, representing the original \$15,369 obligation discounted to the present value amount using a rate of 4.85%.
- A decrease to opening accumulated surplus of \$3,545, as a result of the recognition of the liability and accompanying increase in amortization expense and accretion expense for the years since purchase.

Financial Instruments and Suite of Standards

On January 1, 2023 the City adopted Canadian Public Sector Accounting Standards; PS 1201 Financial statement Presentation, PS 2601 Foreign Currency Translation, PS 3041 Portfolio Investments and PS 3450 Financial Instruments. The new accounting standards prescribe the accounting treatment for financial instruments and were adopted prospectively.

PS 1201 Financial Statement Presentation replaces PS 1200 Financial Statement Presentation. This standard introduces the statement of remeasurement gains and losses. Requirements in PS 2601 Foreign Currency Translation, PS 3041 Portfolio Investments and PS 3450 Financial Instruments, which are required to be adopted at the same time, give rise to the presentation of gains and losses as remeasurement gains and losses.

PS 2601 Foreign Currency Translation replaces PS 2600 Foreign Currency Translation. This standard requires that exchange gains and losses arising on financial assets and liabilities prior to settlement are recorded in the statement of remeasurement gains and losses. Upon settlement, the cumulative amount of unrealized foreign exchange gain or losses previously recognized is reclassified to the statement of operations. The City has not experienced any unrealizable gains or losses arising from foreign currency translation.

PS 3041 Portfolio Investments replaces PS 3040 Portfolio Investments. This standard requires that portfolio investments are measured in accordance with PS 3450 Financial Instruments. The basis of valuation of portfolio investments is disclosed. Losses in the value of a portfolio investment that are not in temporary decline are recognized in the statement of operations.

PS 3450 Financial Instruments establishes the recognition and derecognition, measurement, presentation and disclosure of financial instruments, including derivatives. This standard requires the fair value measurement of derivatives and portfolio investments in equity instruments that are quoted in an active market. The differences between financial instruments previous carrying amounts and fair value on transition was \$27,217.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

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>2023</u>	<u>2022</u>
Property tax	\$ 9,417	\$ 7,756
Trade receivables	21,708	19,934
Due from government	3,474	5,353
Due from provincial government	2,754	2,007
Due from regional government	54	93
Utilities	6,581	6,101
Deferred development cost charges	32,863	13,929
Allowance for doubtful accounts	(3)	(43)
	<u>\$ 76,848</u>	<u>\$ 55,130</u>

Portfolio investments

Portfolio investments are recorded at cost or remeasured at fair market value at year end. Portfolio investments are comprised of the following:

	<u>Level</u>	<u>2023</u>	<u>2022</u>
<u>Portfolio investments in the fair value category</u>			
Municipal Finance Authority investment funds	2	\$ 235,726	\$ 234,637
Publicly traded shares	1	120,997	76,717
Total portfolio investments reported at fair value		<u>356,723</u>	311,354
<u>Portfolio investments in the cost and amortized cost category</u>			
Guaranteed Investment Certificates and deposit notes		392,533	280,287
Provincial and bank issued bonds		96,619	84,675
Total portfolio investments reported at cost and amortized cost		<u>489,152</u>	364,962
Total Portfolio investments		<u>\$ 845,875</u>	<u>\$ 676,316</u>

Included in portfolio investments are designated assets related to the City's Legacy Endowment Fund. At December 31, 2023 the fair market value of these internally restricted funds was \$157,821.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

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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, 2023 the balance outstanding was \$nil (2022 - \$nil).

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>2022</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2023</u>
Tax prepayments	\$ 21,719	\$ 41,617	\$ -	\$ 39,955	\$ 23,381
Construction	19,047	1,864	821	667	21,065
Grants	1,220	23,682	198	1,056	24,044
Other	11,204	10,249	244	12,502	9,195
Local Area Service	4,407	186	-	639	3,954
Total	<u>\$ 57,597</u>	<u>\$ 77,598</u>	<u>\$ 1,263</u>	<u>\$ 54,819</u>	<u>\$ 81,639</u>

Deferred development cost charges (DCC)

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

	<u>2022</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2023</u>
Parks Land/Development	\$ 41,826	\$ 54,820	\$ 1,772	\$ 27,285	\$ 71,133
Roads	86,381	27,726	3,116	13,193	104,030
Water	17,112	1,910	633	(3,115)	22,770
Wastewater	2,819	12,768	192	192	15,587
Drainage	3	160	1	-	164
Total Deferred DCC	<u>\$ 148,141</u>	<u>\$ 97,384</u>	<u>\$ 5,714</u>	<u>\$ 37,555</u>	<u>\$ 213,684</u>

Long term debt

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

	<u>Total</u>
2024	\$ 10,392
2025	10,355
2026	7,630

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

	<u>Total</u>
2027	6,784
2028	4,029
2029 and thereafter	26,530
Total	<u>\$ 65,720</u>

Total outstanding debt issued was \$141,910 and total debt payable at December 31, 2023 was \$65,720 (2022 - \$70,920). Total interest paid in 2023 was \$4,727 (2022 - \$3,762).

Schedule 3 provides a breakdown of long term debt.

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

	2023 Work in progress	2023 Tangible capital assets (NBV)	2022 Work in progress	2022 Tangible capital assets (NBV)
				(Restated - Note 2)
Land	\$ -	\$ 407,186	\$ -	\$ 369,612
Land improvements	1,571	36,134	847	32,989
Buildings	25,291	203,658	18,894	188,920
Infrastructure	42,457	1,178,097	21,795	1,168,509
Machinery and equipment	3,783	82,598	1,953	83,317
	<u>\$ 73,102</u>	<u>\$ 1,907,673</u>	<u>\$ 43,489</u>	<u>\$ 1,843,347</u>

Contributions received in 2023 include:

<u>Type of contribution</u>	<u>2023</u>	<u>2022</u>
Land	\$ 1,335	\$ 1,718
Infrastructure	17	-
Total Contributed tangible capital assets	<u>\$ 1,352</u>	<u>\$ 1,718</u>

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

During the year, tangible capital assets with a cost of \$1,211 (2022 - \$218) were written off due to impairment.

During the year, no interest was capitalized \$nil (2022 - \$nil).

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
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(in thousands of dollars)

5. Accumulated surplus

	Reserves for Future Expenditures	Statutory Reserves	Fund Surpluses	Investment in Tangible Capital Assets	Total 2023	Total 2022 (Restated - Note 2)
Accumulated surplus, beginning of year	\$ 341,206	\$ 133,046	\$ 68,956	\$ 1,792,759	\$ 2,335,967	\$ 2,246,893
Annual surplus (deficit)	13,017	5,101	131,510	(12,641)	136,987	89,074
Transfers	39,472	8,291	(47,763)	-	-	-
Acquisition of tangible capital assets, net	(32,053)	-	(59,478)	91,531	-	-
Repayment of long term debt	-	-	(7,765)	7,765	-	-
Accumulated surplus, end of year	\$ 361,642	\$ 146,438	\$ 85,460	\$ 1,879,414	\$ 2,472,954	\$ 2,335,967

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	\$ 249,529	\$ 146,149	\$ 154,516	\$ 10,325	\$ 268,221
Airport Fund reserve	45,581	26,573	31,153	1,817	51,978
Waste Water Fund reserve	18,693	3,262	333	140	15,904
Water Fund reserve	27,403	5,353	2,754	735	25,539
	<u>341,206</u>	<u>181,337</u>	<u>188,756</u>	<u>13,017</u>	<u>361,642</u>
<u>Statutory Reserves</u>					
Parking reserve	11,406	2,336	5,541	386	14,997
Land reserve	10,932	1,010	4,773	397	15,092
Capital works, machinery and equipment reserve	103,826	31,473	30,625	3,422	106,400
Septic removal specified area reserve	6,882	2,115	4,286	367	9,420
Public amenity and streetscape reserve	-	-	-	529	529
	<u>133,046</u>	<u>36,934</u>	<u>45,225</u>	<u>5,101</u>	<u>146,438</u>
<u>Surplus by Fund</u>					
General Fund surplus	5,029	205,369	132,856	83,480	15,996
Airport Fund surplus	2,407	33,085	6,440	26,645	2,407
Waste Water Fund surplus	49,169	10,283	253	12,960	52,099
Water Fund surplus	12,351	6,841	1,023	8,425	14,958
Accumulated Surplus	<u>68,956</u>	<u>255,578</u>	<u>140,572</u>	<u>131,510</u>	<u>85,460</u>
<u>Investment in Non Financial Assets</u>					
Investment in tangible capital assets	1,792,759	3,700	102,996	(12,641)	1,879,414
Accumulated Surplus	\$ 2,335,967	\$ 477,549	\$ 477,549	\$ 136,987	\$ 2,472,954

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

6. Taxation

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

	<u>2023</u>	<u>2022</u>
Taxes collected		
Property taxes	\$ 309,169	\$ 285,928
Local improvement levies	262	142
Frontage tax - water	1,744	1,704
Specified sewer area recoveries	1,237	1,240
Grants in lieu of taxes	652	627
Levies - library	7,325	7,056
Levies - other	2,140	4,911
	<u>322,529</u>	<u>301,608</u>
Less transfers to other governments		
Province of BC (school taxes)	97,265	86,616
BC Assessment Authority	2,765	2,488
Regional Hospital District	14,643	13,884
Regional District of Central Okanagan	15,803	13,993
	<u>130,476</u>	<u>116,981</u>
Net taxes available for municipal purposes	<u>\$ 192,053</u>	<u>\$ 184,627</u>

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

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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 \$22,825 (2022 - \$386) remained as deferred revenue for future expenditures. In 2023 the City received and recorded as revenue the following transfers:

	<u>2023</u>	<u>2022</u>
Operating transfers		
Federal	\$ 1,250	\$ 856
Provincial	50,654	24,277
Other governments	165	166
	<u>52,069</u>	<u>25,299</u>
Capital transfers		
Federal	5,460	11,234
Provincial	7,659	2,202
Other governments	357	16
	<u>13,476</u>	<u>13,452</u>
Total Government transfers	<u>\$ 65,545</u>	<u>\$ 38,751</u>

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

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.

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.

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, in general, from one to five years.

The City has purchase orders open as at December 31, 2023 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.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

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, 2023, the outstanding loan balance was \$431 (2022 - \$481). 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 \$4,036 (2022 - \$4,709) in prepaid community use time is included in Prepaid expenses.

Royal Canadian Mounted Police Services

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

10. Long term investments

Kelowna Developments Ltd.

The investment in Kelowna Developments Ltd., a wholly owned subsidiary, is carried at its cost of \$2.00. The company is inactive with no assets or liabilities and is being retained for potential future use.

RG Arenas (Kelowna) Ltd.

The investment in preferred shares in RG Arenas (Kelowna) Ltd. is carried at its cost of \$6,000. The shares were purchased under the terms of the Preferred Share Agreement between the City of Kelowna, RG Arenas (Kelowna) Ltd., RG Properties Ltd., and Prospero Canadian Land Investment Fund Ltd. and represents the City's investment in the Multi-Purpose facility. The City has the option to purchase the Facility for the sum of \$1.00 and the surrender of the preferred shares within the 10 year period beginning 30 years and one week from the date of Substantial Completion of the Facility, that being November 19, 2029. If exercised, the Facility will be conveyed to the City free and clear of all liens, charges and encumbrances.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

11. Letters of credit

In addition to the performance deposits reflected in cash balances, the City is holding irrevocable Letters of Credit in the amount of \$89,908 (2022 - \$67,692) 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 \$89,908, the City is holding irrevocable Letters of Credit in the amount of \$23,932 (2022 - \$15,339) 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 Perpetual Care Fund for the perpetual care and maintenance of the City owned and operated cemetery. As at December 31, 2023 the Trust Fund balance is \$3,796 (2022 - \$3,526).

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

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(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, is a regional economic driver that connects passengers to domestic and international destinations in accordance with a low-cost business model and 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, 2023

(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	\$ 397,161
Capital budget	84,767
	<u>481,928</u>
Expenses:	
Operating budget	311,186
Capital budget	363,601
	<u>674,787</u>
Annual deficit per approved budget	(192,859)
Add: tangible capital asset purchases	363,601
Annual surplus per statement of operations	<u>\$ 170,742</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, 2023, 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 2026.

17. Risk management

Risk management of financial instruments

The City of Kelowna has exposure to the following risks related to its financial instruments: credit risk, liquidity risk, interest rate risk, foreign exchange rate risk, and other price risk.

The City employs various risk management strategies to identify and mitigate these risks.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to meet its contractual obligation and cause a financial loss for the other party. The City is primarily exposed to credit risk on its cash and cash equivalents, accounts receivable and portfolio investments. The Government's carrying amounts for these financial assets best represent its maximum exposure to credit risk.

For cash and cash equivalents, and portfolio investments, the City manages this risk by dealing solely with reputable financial institutions, and through an investment policy that limits investments to high credit quality as well as maintains asset allocation and portfolio diversification. For accounts receivable, the City reviews balances and aging information to determine if a valuation allowance is necessary, and initiates collection actions.

Liquidity risk

Liquidity risk is the risk that the City will encounter difficulty in meeting obligations associated with financial liabilities. The City is exposed to liquidity risk on its accounts payable and accrued liabilities and long term debt.

The City manages its overall liquidity risk by managing cash resources which is achieved by monitoring actual and forecasted cash flows. The City manages this risk on its borrowings by applying limits to its debt capacity and distributing debt maturities over many years (Schedule 3).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate unfavourably with changes in market interest rates.

The City is exposed to interest rate risk through its portfolio investment holdings in interest-bearing, or fixed-income assets which may include GICs, term deposits, and funds that include debt securities of Canadian Governments and corporate issuers. The City manages this risk by holding interest bearing instruments to maturity.

Foreign exchange rate risk

Foreign exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate unfavourably with a change in the value of the Canadian dollar relative to other currencies. The City is not exposed to any significant foreign exchange risk because instruments held in foreign currency are not considered significant.

Other Price risk

Other Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk). The City is exposed to other price risk through its portfolio investments and manages these risks through maximum proportions of equities in its investment portfolio and through concentration limits on investments in any one issuer, as outlined in the investment policy.

The City is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes. Overall, the other price risk is not considered significant.

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

18. Asset retirement obligations

The City's asset retirement obligations consist of several obligations as follows:

a) Landfill obligation:

The City owns and operates a landfill site. The liability for the closure of the operational site and post-closure care has been recognized under PS 3280 Asset Retirement Obligations. The costs were based upon the presently known obligations that will exist at the estimated year of closure of the site and for 200 years post this date. The landfill had an estimated useful life of 160 years when it was purchased, of which 103 years remain. Post-closure care is estimated to be required for 200 years from the date of site closure. These costs were discounted to December 31, 2023 using a discount rate of 4.41% (2022 – 4.85%) per annum.

b) Asbestos obligation:

The City owns and operates structures that are known to have asbestos, which represents a health hazard upon demolition of the building and there is a legal obligation to remove it. Following the adoption of PS 3280 Asset Retirement Obligations, the City recognized an obligation relating to the removal and post-removal care of the asbestos in these structures as estimated at January 1, 2022. Post-closure care is estimated to extend for up to a year post the closure of the structure, while demolition and construction continues. Estimated costs have been discounted to the present value using a discount rate of 4.41% (2022 – 4.85%) per annum.

The transition and recognition of asset retirement obligations involved an accompanying increase to the structures and landfill tangible capital assets and the restatement of prior year balances (see note 2).

Changes to the asset retirement obligation in the year are as follows:

	<u>Landfill closure</u>	<u>Asbestos obligation</u>	<u>2023</u>
Balance, beginning of year	\$ 28,269	\$ 4,054	\$ 32,323
Change in estimate	5,246	886	6,132
Accretion expense	1,372	187	1,559
Balance, end of year	<u>\$ 34,887</u>	<u>\$ 5,127</u>	<u>\$ 40,014</u>
	<u>Landfill closure</u>	<u>Asbestos obligation</u>	<u>2022</u>
Balance, beginning of year	\$ -	\$ -	\$ -
Adjustment on adoption of asset retirement obligation standard (note 2)	26,961	3,866	30,827
Balance, beginning of year, as restated	26,961	3,866	30,827
Accretion expense	1,308	188	1,496
Balance, end of year	<u>\$ 28,269</u>	<u>\$ 4,054</u>	<u>\$ 32,323</u>

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

19. Liability for contaminated sites

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 2020-2023 and further work will be undertaken in 2024 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 \$36 (2022 - \$185) is based on contractor estimates of the remaining work required to be undertaken.

The City's liability of \$36 (2022 - \$185) for contaminated sites is included in Accounts payable and accrued liabilities.

20. 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, 2022, the plan has about 240,000 active members and approximately 124,000 retired members. Active members include approximately 43,000 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 \$8,764 (2022 - \$8,224) for employer contributions while employees contributed \$7,661 (2022 - \$7,156) to the plan in fiscal 2023.

The next valuation will be as at December 31, 2024.

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.

21. Comparative figures

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

CITY OF KELOWNA

Notes to the Consolidated Financial Statements

December 31, 2023

(in thousands of dollars)

22. Future accounting changes

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.

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.

The Conceptual Framework for Financial Reporting in the Public Sector

The PSAB issued The Conceptual Framework for Financial Reporting in the Public Sector, which replaces the conceptual aspects of Section PS 1000, Financial Statement Concepts and Section PS 1100, Financial Statement Objectives. This conceptual framework applies to fiscal years beginning on or after April 1, 2026, with early adoption permitted.

PS 1202 Financial Statement Presentation

This section revises and replaces the existing PS 1201 Financial Statement Presentation. This section applies to fiscal years beginning on or after April 1, 2026, with early adoption only permitted if The Conceptual Framework for Financial Reporting in the Public Sector is also adopted at the same time.

CITY OF KELOWNA
Schedule 1 - Tangible Capital Assets
For the Year Ended December 31, 2023
(in thousands of dollars)

	Machinery & Equipment						
	Land	Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computers	Subtotal Machinery & Equipment
Cost							
Balance, beginning of year	\$ 369,612	\$ 80,605	\$ 374,447	\$ 43,941	\$ 118,484	\$ 25,294	\$ 187,719
Add: additions during the year	33,429	234	7,547	3,510	3,366	695	7,571
Add: transfers to tangible capital assets	-	178	15,081	200	2,135	351	2,686
Less: assets held for resale	8,095	-	-	-	-	-	-
Less: disposals during the year	(3,950)	-	(170)	(2,453)	(566)	-	(3,019)
	407,186	81,017	396,905	45,198	123,419	26,340	194,957
Asset retirement obligation	-	7,241	1,507	-	-	-	-
Balance, end of year	407,186	88,258	398,412	45,198	123,419	26,340	194,957
Accumulated Amortization							
Balance, beginning of year	-	48,908	185,810	24,441	61,896	18,066	104,403
Add: amortization	-	2,506	8,525	2,838	5,476	2,427	10,741
Less: accumulated amortization on disposals	-	-	-	(2,269)	(516)	-	(2,785)
	-	51,414	194,335	25,010	66,856	20,493	112,359
Accumulated amortization on asset retirement obligation	-	710	419	-	-	-	-
Balance, end of year	-	52,124	194,754	25,010	66,856	20,493	112,359
Net Book Value of Tangible Capital Assets	\$ 407,186	\$ 36,134	\$ 203,658	\$ 20,188	\$ 56,563	\$ 5,847	\$ 82,598

CITY OF KELOWNA
Schedule 1 - Tangible Capital Assets
For the Year Ended December 31, 2023
(in thousands of dollars)

	Infrastructure							Total 2023	Total 2022 (Restated - Note 2)
	Plant & Facilities	Roads, Lanes, Sidewalks & Bike Paths	Bridges, Tunnels & Overpasses	Underground, Overhead & Other Networks	Airport Infrastructure	Subtotal Infrastructure	Work In Progress		
Cost									
Balance, beginning of year	\$ 234,483	\$ 600,260	\$ 37,382	\$ 1,232,047	\$ 96,609	\$ 2,200,781	\$ 43,489	\$ 3,256,653	\$ 3,152,526
Add: additions during the year	2,618	4,035	222	4,944	2,755	14,574	90,171	153,526	105,825
Add: transfers to tangible capital assets	8,720	17,556	189	12,574	3,574	42,613	(60,558)	-	-
Less: assets held for resale	-	-	-	-	-	-	-	8,095	805
Less: disposals during the year	-	(13)	-	-	-	(13)	-	(7,152)	(2,502)
	245,821	621,838	37,793	1,249,565	102,938	2,257,955	73,102	3,411,122	3,256,654
Asset retirement obligation	26	-	-	97	-	123	-	8,871	2,741
Balance, end of year	245,847	621,838	37,793	1,249,662	102,938	2,258,078	73,102	3,419,993	3,259,395
Accumulated Amortization									
Balance, beginning of year	112,107	389,213	11,360	477,532	42,084	1,032,296	-	1,371,417	1,303,490
Add: amortization	8,017	16,806	585	18,554	3,691	47,653	-	69,425	69,253
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(2,785)	(1,323)
	120,124	406,019	11,945	496,086	45,775	1,079,949	-	1,438,057	1,371,420
Accumulated amortization on asset retirement obligation	7	-	-	25	-	32	-	1,161	1,139
Balance, end of year	120,131	406,019	11,945	496,111	45,775	1,079,981	-	1,439,218	1,372,559
Net Book Value of Tangible Capital Assets	\$ 125,716	\$ 215,819	\$ 25,848	\$ 753,551	\$ 57,163	\$ 1,178,097	\$ 73,102	\$ 1,980,775	\$ 1,886,836

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2023
(in thousands of dollars)

	General Government	Protective Services	Transportation	Recreation & Cultural	Other Services	Airport	Wastewater	Water	Statutory Reserves	2023
Revenue										
Taxation	\$ 188,042	\$ -	\$ 262	\$ -	\$ -	\$ -	\$ 1,237	\$ 2,512	\$ -	\$ 192,053
Fees and charges	15,966	17,931	19,506	6,494	30,455	47,884	23,632	18,909	649	181,426
Interest earned	18,636	-	-	-	-	1,917	1,796	1,155	4,451	27,955
DCC contributions	-	-	13,193	27,285	-	-	192	(3,115)	-	37,555
Government transfers	36,093	4,365	12,456	3,362	294	5,178	3,789	8	-	65,545
Other capital contributions	2,571	-	-	-	-	604	485	636	-	4,296
Gain on disposal of tangible capital assets	258	8	217	1	-	-	-	-	-	484
	<u>261,566</u>	<u>22,304</u>	<u>45,634</u>	<u>37,142</u>	<u>30,749</u>	<u>55,583</u>	<u>31,131</u>	<u>20,105</u>	<u>5,100</u>	<u>509,314</u>
Expenses										
Salaries and benefits	29,523	39,789	10,846	13,974	9,607	6,168	4,860	4,623	-	119,390
Contract and professional services	14,225	1,465	28,893	7,764	11,560	3,367	1,525	871	-	69,670
RCMP Contract	-	52,541	-	-	-	-	-	-	-	52,541
Materials and supplies	11,384	2,620	7,789	14,048	1,145	9,736	3,040	1,779	-	51,541
Equipment	828	450	3,932	1,706	2,630	91	1,100	754	-	11,491
Allocations	(6,783)	(211)	240	(196)	2,451	1,559	1,729	1,219	-	8
Cost recoveries	(2,884)	(3,341)	(11,101)	(165)	(4,040)	(699)	(261)	(775)	-	(23,266)
Grants and external transfers	3,997	111	1	1,032	416	-	-	-	-	5,557
Utilities	209	345	1,405	2,588	259	677	1,355	1,471	-	8,309
Loss on disposal of tangible capital assets	39	4	97	-	-	-	-	-	-	140
Write down of tangible capital assets	985	-	13	-	-	213	-	-	-	1,211
Amortization of tangible capital assets	5,878	1,842	24,618	8,718	2,575	8,864	10,378	6,576	-	69,449
Accretion	153	-	-	-	1,372	20	-	14	-	1,559
Total before Debt	<u>57,554</u>	<u>95,615</u>	<u>66,733</u>	<u>49,469</u>	<u>27,975</u>	<u>29,996</u>	<u>23,726</u>	<u>16,532</u>	<u>-</u>	<u>367,600</u>
Debt interest and fiscal services	3,573	-	-	-	-	584	282	288	-	4,727
Total operating expenses	<u>61,127</u>	<u>95,615</u>	<u>66,733</u>	<u>49,469</u>	<u>27,975</u>	<u>30,580</u>	<u>24,008</u>	<u>16,820</u>	<u>-</u>	<u>372,327</u>
Annual Surplus (Deficit)	<u>\$ 200,439</u>	<u>\$ (73,311)</u>	<u>\$ (21,099)</u>	<u>\$ (12,327)</u>	<u>\$ 2,774</u>	<u>\$ 25,003</u>	<u>\$ 7,123</u>	<u>\$ 3,285</u>	<u>\$ 5,100</u>	<u>\$ 136,987</u>

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 (Restated - Note 2)</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	869	8,192	2,981	1,575	-	43,607
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	5,949	1,893	25,586	8,311	2,515	8,162	10,360	6,502	-	69,278
Accretion	154	-	-	-	1,308	20	-	14	-	1,496
Total before Debt	<u>46,635</u>	<u>77,478</u>	<u>68,925</u>	<u>46,875</u>	<u>27,186</u>	<u>25,940</u>	<u>23,316</u>	<u>15,621</u>	<u>-</u>	<u>331,976</u>
Debt interest and fiscal services	2,628	-	-	-	-	584	282	268	-	3,762
Total operating expenses	<u>49,263</u>	<u>77,478</u>	<u>68,925</u>	<u>46,875</u>	<u>27,186</u>	<u>26,524</u>	<u>23,598</u>	<u>15,889</u>	<u>-</u>	<u>335,738</u>
Annual Surplus (Deficit)	<u>\$ 166,616</u>	<u>\$ (59,974)</u>	<u>\$ (35,492)</u>	<u>\$ (22,429)</u>	<u>\$ 2,741</u>	<u>\$ 24,829</u>	<u>\$ 3,076</u>	<u>\$ 7,240</u>	<u>\$ 2,467</u>	<u>\$ 89,074</u>

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2023
(in thousands of dollars)

Long term debt - General Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance December 31, 2022	Amount of Issue	Debt Balance December 31, 2023	Sinking Fund Balance December 31, 2023	Current Interest Rate
	Local Improvements					%
2035	Lawrence Ave LAS	\$ 238	\$ 345	\$ 222	\$ 123	3.00
	Recreation and Cultural					
2027	H2O Centre	9,008	27,500	7,328	20,172	3.90
2027	Kokanee Gymnastic	262	800	213	587	3.90
2028	H2O Centre	772	2,000	655	1,345	4.30
2035	Police Facilities	14,498	20,000	13,599	6,401	2.75
2035	Library Parkade Ext & Memorial Parkade	10,874	15,000	10,199	4,801	2.75
2036	Police Facilities	13,063	17,000	12,324	4,676	2.60
2037	Police Facilities	2,407	3,000	2,278	722	3.15
2038	Police Facilities	1,148	1,360	1,091	269	3.15
<u>Total Debt - General Fund</u>		<u>\$ 52,270</u>	<u>\$ 87,005</u>	<u>\$ 47,909</u>	<u>\$ 39,096</u>	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2023
(in thousands of dollars)

Long term debt - Wastewater Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2022</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2023</u>	<u>Sinking Fund Balance December 31, 2023</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2024	Spec. Area 21A - McKenzie Bench	\$ 201	\$ 1,350	\$ 103	\$ 1,247	2.25
2024	Spec. Area 22B - Vista Rd	12	80	6	74	2.25
2024	Spec. Area 22C - Hein Rd	40	266	20	246	2.25
2024	Spec. Area 22D - Elwyn Rd	22	149	11	138	2.25
2024	Spec. Area 22E - Dease Rd	14	96	7	89	2.25
2024	Spec. Area 22F - Mills Rd	51	342	26	316	2.25
2024	Spec. Area 29 - Campion Cambro	130	874	67	807	2.25
2024	Spec. Area 30 - Acland	54	364	28	336	2.25
2025	Spec. Area 20 - North Rutland	1,365	6,822	924	5,898	0.91
2025	Spec. Area 28A - Okaview	128	638	86	552	0.91
2028	Spec Area 26 - Fisher Rd	780	2,021	662	1,359	4.30
2028	Spec Area 34 - Country Rhodes	168	435	143	292	4.30
2028	Spec Area 36 - Clifton	103	267	88	179	4.30
	Sewage Treatment Plant					
2031	Brandt's Creek Tradewaste Treatment	1,238	3,800	944	2,856	1.47
	<u>Total Debt - Wastewater Fund</u>	<u>\$ 4,306</u>	<u>\$ 17,504</u>	<u>\$ 3,115</u>	<u>\$ 14,389</u>	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2023
(in thousands of dollars)

Long term debt - Water Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2022</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2023</u>	<u>Sinking Fund Balance December 31, 2023</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2023	Spec Area 16 - Byrns	\$ 3	\$ 39	\$ -	\$ 39	2.85
2024	Spec Area 18 - Lakeshore	4	24	2	22	2.25
2028	Spec Area 26 - Fisher Rd	115	297	97	200	4.30
2038	Local Area Service - Aspen Rd	41	48	38	10	3.20
2042	Local Area Service - Somid	441	441	424	17	3.36
	Water Improvement Programs					
2028	Cedar Creek Pump Station	2,923	7,577	2,482	5,095	4.30
2031	Poplar Point Pump Station Upgrade	1,091	2,000	987	1,013	1.47
	Total Debt - Water Fund	\$ 4,618	\$ 10,426	\$ 4,030	\$ 6,396	

Long term debt - Airport Fund

Debenture Debt

2025	Airport Expansion	\$ 2,527	\$ 7,500	\$ 1,713	\$ 5,787	2.75
2026	Airport Expansion	1,546	3,500	1,179	2,321	2.60
2026	Airport Expansion	1,307	3,000	995	2,005	2.10
2027	Airport Expansion	4,295	8,000	3,486	4,514	2.80
	Total Debt - Airport Fund	\$ 9,675	\$ 22,000	\$ 7,373	\$ 14,627	

Long term debt - Other

2029	Airport - Enterprise Rental Car Kiosk	\$ 51	\$ 73	\$ 44		nil
2028	South Perimeter DCC Road B	-	4,902	3,249		nil
	Total Debt - Other	\$ 51	\$ 4,975	\$ 3,293		

Total City Long Term Debt	\$ 70,920	\$ 141,910	\$ 65,720
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CITY OF KELOWNA

Schedule 4 - COVID-19 Safe Restart Grant for Local Governments

For the Year Ended December 31, 2023

(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>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 370	\$ 1,716
Interest earned	12	37
Less funds used to support:		
Community services revenue losses	(107)	(204)
Technological costs	(170)	(210)
Support for vulnerable persons	-	(285)
Enforcement and protective services	(105)	(684)
	<u>(370)</u>	<u>(1,346)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 370</u>

CITY OF KELOWNA

Schedule 5 - BC Growing Communities Fund Grant

For the Year Ended December 31, 2023

(in thousands of dollars)

The BC Growing Communities Fund Grant was received from the Provincial Government in 2023 and was included in the Government transfers Revenue line (Note 7) under Operating transfers, Provincial. The schedule below provides disclosure of funds received, spent and remaining. A balance at the end of the year represents unused funds received and is included in the General fund reserve.

	<u>2023</u>	<u>2022</u>
BC Growing Communities Fund Grant received	\$ 26,228	\$ -
Interest earned	241	-
Less use of funds:		
Public safety equipment	<u>(213)</u>	<u>-</u>
	<u>28</u>	<u>-</u>
Balance, end of year	<u><u>\$ 26,256</u></u>	<u><u>\$ -</u></u>



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Measuring Financial Performance

Kelowna's Financial Health Measures – 2023 Year End

April 30th, 2024

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.



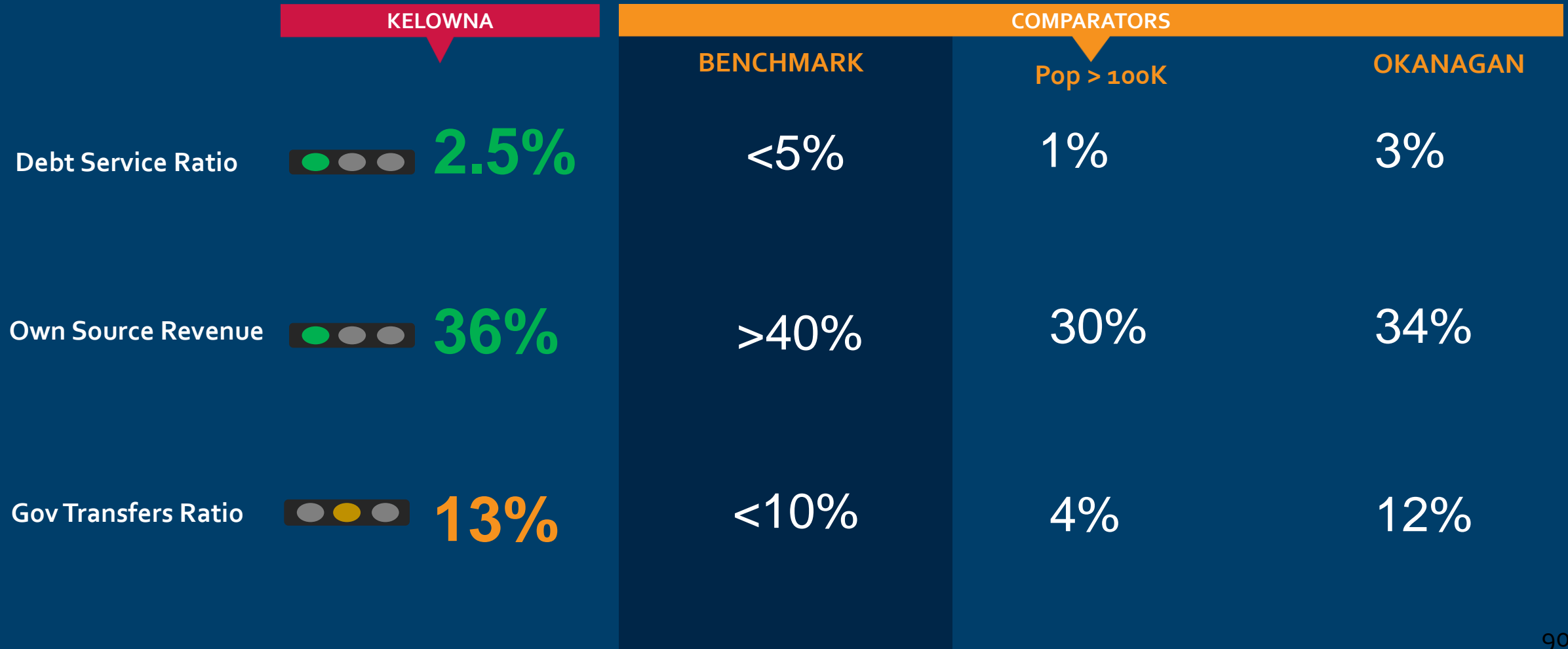


Categories

- **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



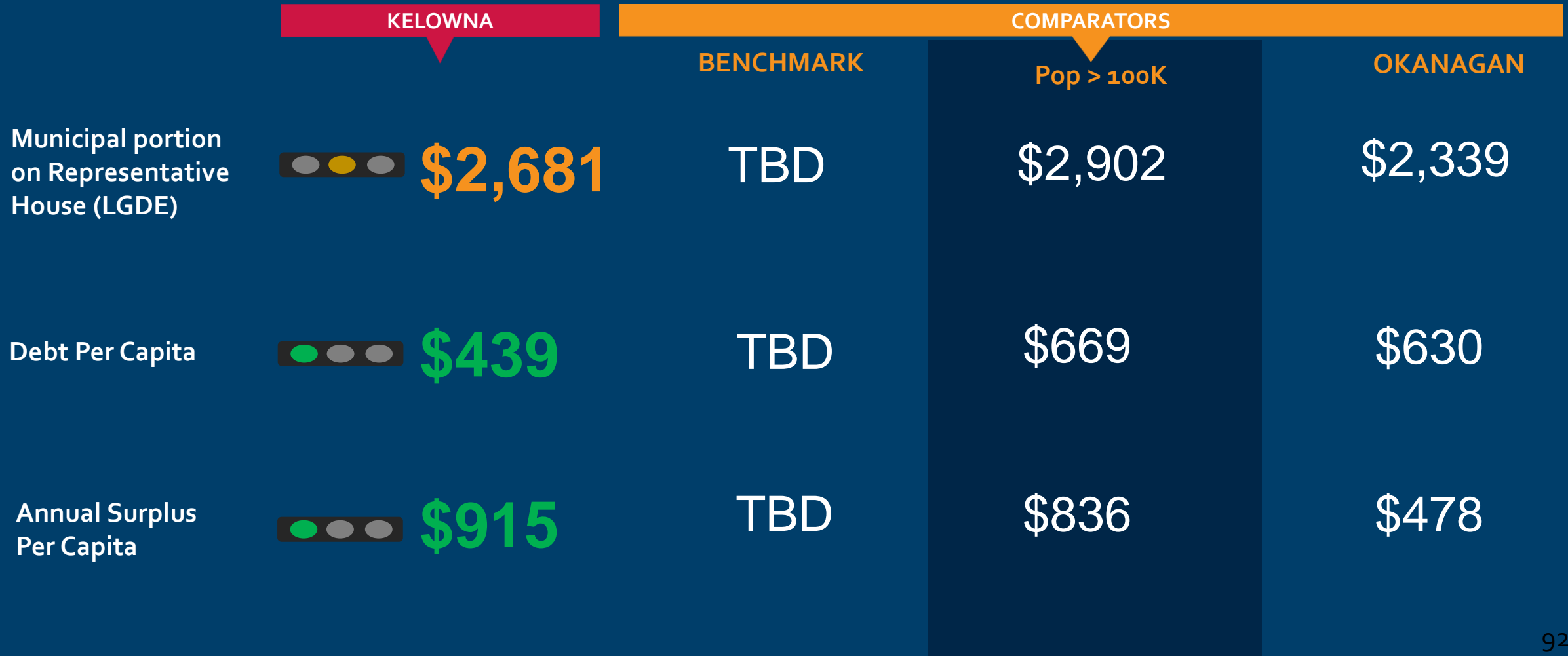
Financial Sustainability

The ability to maintain operations and services over the long term

	KELOWNA	COMPARATORS		
		BENCHMARK	Pop > 100K	OKANAGAN
Financial Assets/Liabilities	 1.98	>1.75	1.84	1.39
Net Financial Assets/Revenue	 101%	>70%	75%	27%
Accum. Surplus & Reserves/Expenses	 159%	>100%	137%	63%

Competitiveness

How do we fare financially on a per capita basis



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, with city lights glowing across the horizon. Mountains are visible in the distance under a twilight sky. The foreground shows tall grass on a hillside.

Questions?

Memo



Date: April 30, 2024
To: Audit Committee
From: Financial Services Divisional Director
Subject: 2023 City of Kelowna Financial Health Indicators
Report Prepared by: Lewis Isle, Financial Analyst

Purpose:

To provide the Audit Committee with a report using key performance indicators that shows the overall financial health of the City for the year ended 2023. The report also provides comparative financial information for the year ended 2022 using Local Government data for Municipalities with greater than 100,000 population and for Local Governments in the region. Comparative financial information for 2023 will be available when the Local Government Data Entry (LGDE) statistics are published in the fall.

Background:

Along with the quarterly reports provided to council by Financial Services, we present our Yearly Financial Health Indicators based on information in our annual Financial Statements.

Principles and Strategies for Financial Strength and Stability are used to guide decision-making within the City and to help realize financial goals and, ultimately, the vision for Kelowna.

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

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

2023 Comparative figures for other local governments will be available in the fall of 2024 and will be included at next year's Audit Committee meeting.

As mentioned above, the current financial health indicators provide the Audit Committee with an overall picture of the City of Kelowna's financial position relative to other municipalities of similar size, as well as to other municipalities in the Okanagan region. While these comparisons provide beneficial information, it is important to note that the comparison to these other municipalities is not without its challenges. The difference between municipalities can sometimes be significant based on the services each municipality provides. To provide further value as to how the City of Kelowna is performing financially, benchmarks

are included for certain financial indicators. There are no common benchmarks available due to the considerable differences in municipal services, therefore these benchmarks have been tailored for the City of Kelowna and are based on factors such as industry standards, trends, and commonly acceptable ratios. Future work in this area is being undertaken and the City has recently joined the Municipal Benchmarking Network in order to access additional levels of data to further compare ourselves to other municipalities.

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

Financial Health Indicators:

Financial Flexibility – How much room we have to move in the short term


Indicator 1: Debt Service Ratio

This ratio measures the percentage of current revenues required to service debt incurred to fund past expenditures and the capacity for the City to incur additional debt. A smaller debt service to revenue ratio indicates that the City has greater flexibility in future borrowing decisions and more revenue to use for other opportunities. In 2022 3% of revenues were used to pay for debt service charges and that the amount remained relatively steady in 2023 at 2.5%. The decrease is due to increased revenues and the payment of long term debt. This shows that the City’s borrowing ratio is currently in line with other municipalities. It should be noted that while there is significant borrowing room within the Province’s legislative thresholds, upcoming authorized loans for the BSK and Airport Expansion projects will significantly impact this ratio.

Debt Service Ratio		Kelowna	Benchmark	Pop >100k	Okanagan
		2%	<5%	1%	3%

Indicator 2: Own Source Revenue to Total Revenue

Measures the extent to which own source revenues make up total revenues. This is a gauge for how much flexibility the City has to deal with changing revenue sources. In 2023 this ratio increased to 36%, which is in line with normal level over the past 5 years. 2023 saw increases in every source of revenue. An increase in Taxation revenue was offset with a significant increase in Grant revenue, as well as DCC revenue. Grant revenue increased almost \$40 Million dollars mostly related to a large Growing Communities Grant. There are also significant deferred grants received, providing some support for future years metrics.

Own Source Revenue		Kelowna	Benchmark	Pop >100k	Okanagan
		36%	>40%	30%	34%

Indicator 3: Government Transfers to Total Revenues

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


Some government transfers are relatively consistent from year to year however, the City occasionally receives one-time funding typically for large infrastructure projects which will cause this ratio to fluctuate. This ratio has been fairly stable in the past 3 years but saw quite a large increase in 2023 due to the Growing Communities Grant mentioned above.

Gov. Transfers Ratio		Kelowna 13%	Benchmark <10%	Pop >100k 4%	Okanagan 12%
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Financial Sustainability – The ability to maintain operations and services over the long term


Indicator 4: Financial Assets to Liabilities

Measures liquidity and the City's ability to meet financial obligations. A ratio > 1.0 indicates the City is well positioned to meet its financial obligations without the need to fund past expenditures with future revenues. This ratio has been trending upwards in recent years, with financial assets growing at a greater rate than that of financial liabilities. 2023 saw a slight decrease to this ratio as liabilities increased at a greater rate than assets. This is due to the new Asset Retirement Accounting standard, and a significant increase in Accounts Payable and Deferred Development Cost Charges.

Fin. Assets/ Liabilities		Kelowna 1.98	Benchmark >1.75	Pop >100k 1.84	Okanagan 1.39
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Indicator 5: Net Financial Assets (Financial Assets-Liabilities) to Total Revenue

This ratio provides a measure of revenue that can be used to fund current and future expenditures. An increasing ratio normally indicates stability, and that the City is well positioned to meet its financial obligations now and in the future. This ratio has remained relatively stable in the past few years, decreasing slightly from 110% to 101% in 2023. In this case, this means that revenues increased at a slightly higher rate than Net Financial Assets in 2023.

Net Fin. Assets/Revenue		Kelowna 101%	Benchmark >70%	Pop >100k 75%	Okanagan 27%
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Indicator 6: Accumulated Surplus/Deficit to Expenses

Measures reserve balances as a percent of operating expenses. Reserves are monies set aside for planned future needs, to smooth expenses, or for unexpected costs. This metric indicates the amount of funds available that could be used to fund City operations. This measure has been trending up over time, indicating that we are setting more money aside to fund future expenses. In 2023 this measure has remained similar to 2022, as the surplus and expenses have increased at roughly the same rate.

Accum Surplus & Reserves/Expenses		Kelowna	Benchmark	Pop >100k	Okanagan
		159%	>100%	137%	63%

Competitiveness – How do we fare financially on a representative house and per capita basis


Indicator 7: Municipal Portion of Taxes on a Representative House

Measures the municipal amount of property taxation per average house within a municipality. This measure has been trending up over the last 5 years in line with other comparators. The focus as a municipality is to keep the tax burden to an acceptable level while providing services for citizens and growing and maintaining infrastructure. The stability of this measure is dependent on well thought out fiscal planning and financial funding strategies, this ensures our citizens are getting an adequate level of service for each tax dollar they pay. (This graph is based on the most recent LGDE data)

Municipal portion on Representative House (LGDE)		Kelowna	Benchmark	Pop >100k	Okanagan
		\$2,681		\$2,902	\$2,340

Indicator 8: Debt Per Capita

Measures the amount of debt a municipality has per citizen. This has been trending downwards over the past 5 years indicating that the city is holding less debt per citizen now compared to 5 years ago. This will follow the same trend as the debt servicing ratio unless a significant change happens with the population in the region. With The City of Kelowna not taking on a significant amount of new debt in 2023 and paying down old debt, the trend on this ratio is favorable.

Debt per Capita		Kelowna	Benchmark	Pop >100k	Okanagan
		\$439		\$669	\$630

Indicator 9: Annual Surplus Per Capita

Measures the amount of the City’s annual surplus per citizen. This metric indicates opportunity to add service capacity within existing taxation levels. This is trending up again after a downward trend from 2018 to 2021. While this indicator shows potential for additional service capacity within existing taxation levels, it is also important to note we do not want a significantly high annual surplus per capita as that means we are overtaxing our citizens.

Annual Surplus per capita		Kelowna	Benchmark	Pop >100k	Okanagan
		\$915		\$836	\$478

Conclusion:

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

The City’s strong overall financial health played a key part in recent years after being challenged in many areas by the COVID-19 pandemic, and then a period of significant inflation. In particular, stability of the City’s flexibility position is a great strength moving forward. This is due to revenue increases across all segments. 2023 was once again a period of economic uncertainty with inflation and interest rate hikes being the leading factors in an ever-changing environment. Future infrastructure replacement and expansion demands are at the forefront of future planning and funding strategies are always ongoing. When making determinations on funding, the City will need to take the above factors into consideration along with the financial strategies already in place.

The sustainability ratios show that the City has remained stable in meeting current financial obligations without increasing the debt and that the Accumulated Surplus has remained at a similar level compared to expenses for 2023.

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

The City of Kelowna’s Financial indicators show that 2023 was a somewhat stable year as the city continues to adapt to changing economic climates. Challenges such as inflation and supply chain issues have tested the city in recent years, however, the financial strategies in place have mitigated the effects and leave the city in a strong position going forward regardless of the challenges we face.

Memo



Date: April 30, 2024
File: 0605-01
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of 2023 Surplus and Reserves
Report Prepared by: Financial Planning Manager

2023 Surplus

The 2023 fiscal year ended with a surplus of \$23.6M, made up of the General, Airport (after contributions to reserve), Water Utility and Wastewater Utility Fund surpluses. This surplus is calculated based on the 2023 amended budget. As part of regular operations, the Financial Services Division prepares an annual report detailing expenditures that have varied from approved budget. This report, recommending approval of amendment no. 1 to the Five-Year Financial Plan 2023-2027 Bylaw along with details reflecting the necessity for the amendment, was forwarded to Council at the April 15, 2024 regular meeting.

The General Fund makes up approximately half of this surplus at \$11.0M. This surplus is being recommended to be allocated to reserve and accumulated surplus as part of the City Manager's April 30, 2024 memorandum titled "2023 Surplus from Operations". After the distribution of this surplus, the general fund's accumulated surplus will be \$5.25M which represents 3% of the 2023 taxation demand.

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

- Capital project carryovers for projects not completed at year end,
- 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, professional and consulting services, and maintenance costs,
- And unexpected legal expenses.

The Airport ended the year with a \$25.0M surplus as the Airport returned to 2019 pre-pandemic passenger levels in 2023. The \$25.0M surplus was mainly driven by \$22.9M in Airport Improvement Fee revenues, which can only be used to fund Airport capital infrastructure, equipment, or corresponding debt.

The Wastewater Utility ended the year with a \$7.2M surplus, \$3.0M of which was attributed to capital and was fully carried over to 2024. 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 \$4.7M, \$1.4M of which was attributed to capital and was fully carried over to 2024. The utility experienced higher than expected revenues from increased community water consumption and increased investment interest amid historical increases in interest rates.

Further details on these surpluses can be found in the following section "Appendix A" titled "2023 Revenue - Expenditure Analysis".

2023 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 \$33.8M between 2022 and 2023. The largest increase was in the General reserves \$18.7M, mainly due to the contribution of Growing Communities Grant being contributed to reserve. The increase in statutory reserves was \$13.4M including \$4.1M from Landfill operations and \$3.2M from Parking Services.

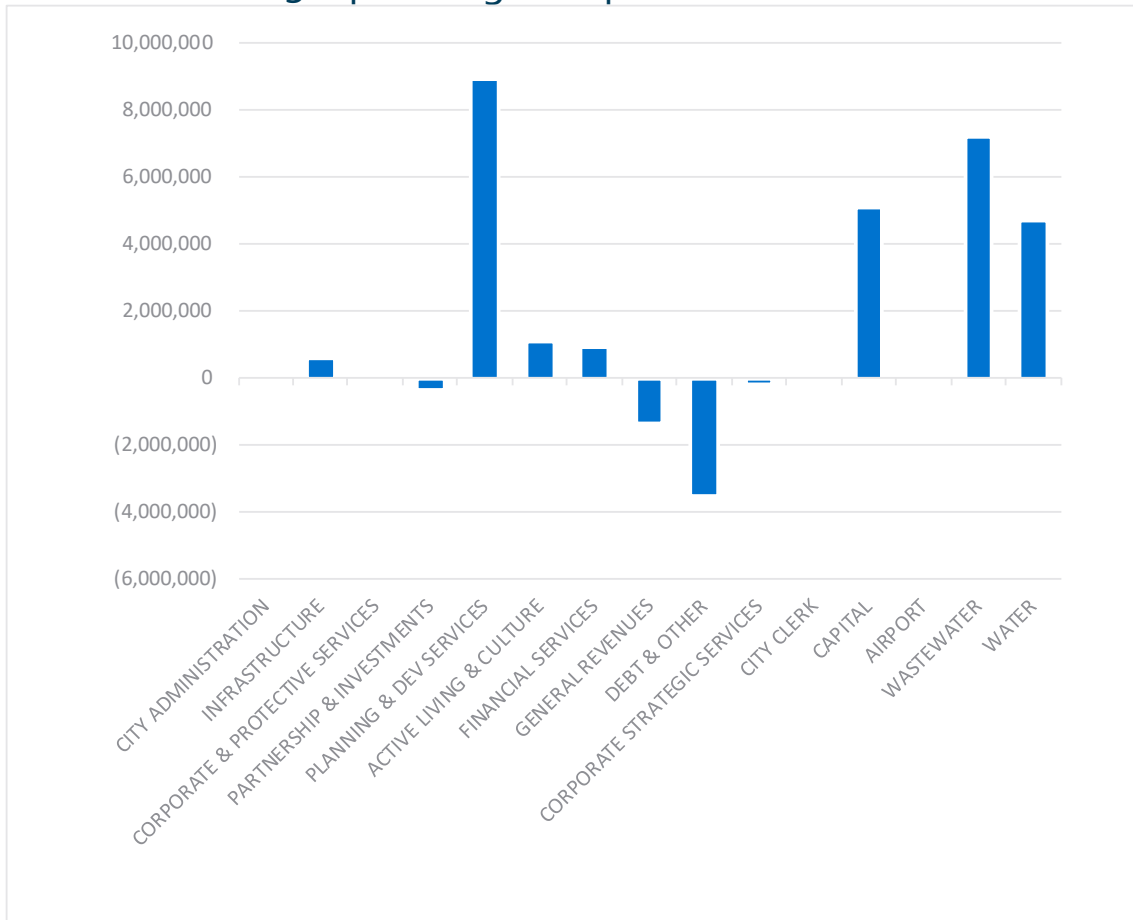
Development Cost Charges (DCC) are reported separately from other reserves as they are revenues received for specific purposes and cannot be used for any other expenditures. The DCC balance increased by \$65.5M between 2022 and 2023.

J. Sass, CPA, CA

cc: City Manager
Grant Thornton – Tyler Neels

APPENDIX A - 2023 Revenue - Expenditure Analysis

2023 Operating & Capital Results



*Airport amounts are net of contributions to reserve

	Actuals	Budget	Variance	
City Administration	2,531,710	2,531,549	(161)	100.0%
Infrastructure	39,628,963	40,210,061	581,098	98.6%
Corporate & Protective Services	84,676,172	84,598,213	(77,959)	100.1%
Partnerships & Investments	10,331,930	9,999,765	(332,165)	103.3%
Planning & Development Services	(9,167,242)	(225,074)	8,942,168	4073.0%
Active Living & Culture	10,513,145	11,611,336	1,098,191	90.5%
Financial Services	6,219,575	7,127,198	907,623	87.3%
General Revenue	(191,059,250)	(192,426,998)	(1,367,748)	99.3%
Debt & Other	12,331,664	8,791,972	(3,539,692)	140.3%
Corporate Strategic Services	10,584,860	10,373,252	(211,608)	102.0%
City Clerk	1,785,775	1,639,199	(146,576)	108.9%
Capital Projects (General)	10,654,844	15,769,527	5,114,683	67.6%
Total General Fund (Deficit)/Surplus	(10,967,854)	-	10,967,854	
Airport	3	-	(3)	0.0%
Wastewater Utility	(7,222,881)	-	7,222,881	0.0%
Water Utility	(4,696,930)	-	4,696,930	0.0%
Total Operating & Capital - (Deficit)/Surplus	(22,887,662)	-	22,887,662	

1. Summary of General Fund

City Administration

The City Administration Division ended the year at nearly 100.0% of budget with a small deficit of \$161.

Infrastructure

The General Fund portion of the Infrastructure Division ended the year at 98.6% of budget and a surplus of \$581k. This surplus is a result of increased ridership revenue in the Regional Transit program and reduced contract costs, driven by factors such as lower fuel expenses and restricted routes in early 2023, as well as staff vacancies experienced by the Division. This surplus was partially balanced by cost overruns in areas like parks and beach maintenance, litter management, street sweeping, and paved oil surface maintenance, mainly due to cost inflations. Budget of \$47k was approved for carryover into 2024, reducing this surplus to \$534k.

Corporate & Protective Services

The Corporate and Protective Services Division ended the year at 100.1% of budget and a deficit of \$78k. The deficit can be attributed to higher than budgeted RCMP contract and Bylaw costs as well as increased insurance premiums. These were partially offset by higher than expected casino gaming revenues and lower prisoner costs as well as staff vacancies throughout the division. Budget of \$66k was approved for carryover into 2024, increasing this variance to \$144k or 100.2% of budget.

Partnerships & Investments

The Partnerships and Investments Division, which includes Building Services, ended the year at 103.3% of budget and a deficit of \$332k. This was mostly due to inflationary pressures and price escalations of contracted services, materials, and supplies for maintaining civic buildings. This was offset by higher than expected concession revenues and lower than anticipated professional and consulting service expenses. Budget of \$66k was approved for carryover into 2024, increasing this deficit to \$398k, 104% of budget.

Planning & Development Services

The Planning and Development Division ended the year at 4073.0% of budget and a surplus of \$8.9M. 2023 was unprecedented for construction activity with permit values exceeding \$1.756B, 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. Budget of \$41k was approved for carryover into 2024, reducing this surplus to 4055% of budget.

Active Living & Culture

The Active Living and Culture Division ended the year at 90.5% of budget and a surplus of \$1.1M. This surplus is attributed to Sports & Event Services seeing higher than expected revenues due to a continued strong post-COVID recovery. Additionally, lower than anticipated grant expenses, reflecting reduced community demand, contributed to the surplus. Staff vacancies within the Active Living and Culture Division further bolstered the surplus. Budget of \$97k was approved for carryover into 2024, reducing this surplus to \$1.0M, 91% of budget.

Financial Services

The Financial Services Division ended the year at 87.3% of budget and a surplus of \$907k. The surplus is mainly due to staff vacancies experienced by various branches within the division.

General Revenues

General Revenues ended the year at 99.3% of budget and a deficit of \$1.36M. This surplus is attributed to the decision not to sell any Fortis shares during the year due to surpluses being realized throughout the City.

Debt & Other

Debt and Other ended the year at 140.3% of budget and a deficit of \$3.5M. The deficit is mainly due to the salary vacancy factor that is in place to offset vacancy surpluses throughout the organization and help prevent the overtaxing of property owners.

Corporate Strategic Services

The Corporate Strategic Services Division ended the year at 102.0% of budget and a deficit of \$211k. The deficit is mainly due to higher than anticipated professional and consulting services, driven by inflationary pressures. Additionally, the necessity to hire temporary staff to fill positions vacated by employees assigned to other projects. Budget of \$15k was approved for carryover into 2024, increasing this deficit to \$227k.

City Clerk

The City Clerks Division ended the year at 108.9% of budget and a deficit of \$146k. This deficit is mainly due to unexpected legal expenses during the year.

Capital Projects (General Fund)

Capital Projects ended the year using 67.6% of taxation budget and a surplus of \$5.1M. Of this amount, \$4.9M was approved to be carried over into 2024 leaving a \$203k surplus in the program.

2. Summary of Airport/Utility Funds

Airport Fund

The Airport's 2023 surplus before contributions to reserve was \$25.0M. During 2023, passenger numbers increased 18% when compared to 2022 and returned to 2019 pre-pandemic levels. Airport revenues totaled \$55.6M for the year, an increase of \$4.4M compared to 2022, and which was mainly due to increased passenger growth, offset by decreased grant funding. Airport operating expenditures, excluding amortization, were \$0.7M less than budget at \$21.8M. Expenditures came in under budget due to the continued, concerted effort to move strategic initiatives forward in the most cost-effective manner.

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

Wastewater Utility Fund

The Wastewater Utility 2023 surplus was \$7.2M, of which \$3.0M was attributed to capital projects. Carryovers approved by Council total \$3.2M for the capital program, which will put the Wastewater capital program into a deficit of \$178k for 2023, and \$39k for the operating program. Total carryovers will reduce the fund surplus to \$3.9M. The Wastewater Utility received greater than expected revenue primarily due to the higher than planned number of residential units added as well as greater than expected revenues from investment interest due to historic increases in interest rates. 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 2023 surplus contributions, for the Wastewater Utility is \$49.2M. During 2023, \$3.9M was transferred from the Wastewater Utility Accumulated Surplus to the Septic

Removal Specified Area reserve to be used to fund the design and construction of sanitary sewer connection area projects as identified in Sewer Connection Area Prioritization Bylaw No. 12343.

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 2023 surplus was \$4.7M, of which \$1.4M was attributed to capital projects Carryovers approved by Council total \$1.5M for the capital program, which will put the Water capital program into a deficit of \$123k for 2023, and \$228k for the operating program. Total carryovers will reduce the fund surplus to \$2.9M. The Water Utility experienced higher than expected revenues from increased community wide water consumption and elevated investment interest resulting from historical increases in interest rates. This surplus was augmented by lower than anticipated salary and wages expenses, attributed to utility staff undertaking projects beyond the Water Utility Fund. Additionally, an expense surplus was realized through the decommissioning of the Long Meadow Reservoir Dam and lower than expected professional services costs.

The accumulated surplus balance, before any 2023 surplus contributions, for the Water Utility is \$12.3M. A portion of the accumulated surplus will be required to support capital renewal primarily for new water meters over the next five years. In addition to using a portion of the accumulated surplus for capital renewal, rate increases of 6% or more will be required in order to ensure the Utility does not move into a deficit position.

3. Summary of Reserve Funds

The City of Kelowna’s 2023 year-end reserve position on a comparative basis to 2022 is as follows in 000’s of dollars:

	<u>2023</u>	<u>2022</u>
General Reserves for Future Expenditures	\$148,131	\$138,991
Endowment Reserve	120,095	110,543
Statutory Reserves for Future Expenditures	146,439	133,049
Utility Reserves for Future Expenditures	93,420	91,677
Total Reserves	<u>\$508,085</u>	<u>\$474,260</u>
Less Multi-Purpose Commitment	<u>7,649</u>	<u>7,283</u>
Available Reserves	<u>\$500,436</u>	<u>\$466,977</u>

In 2023 the Legacy Reserves were amalgamated into the City’s Endowment reserve. The increase of 9.6M from the previous year’s legacy reserve to this year’s endowment reserve is due to reinvestment of Fortis share dividends, interest revenue and the amalgamation of other general reserves.

4. Reserves for Future Expenditures - Increase of \$33.5M

General Fund

The General Fund has a reserve for future expenditure balance of \$148.1M of which \$14.0M 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 increased \$18.7M from 2022 primarily due to receiving the Growing Community’s grant.

Airport Reserves

The Airport reserves for future expenditure balance is \$52.0M, which is made up of the following reserve balances: \$25.4M Airport Improvement Fee, \$(6.2M) Airport Terminal, \$33.9M Airport Groundside, \$(1.3M) Airport Airside, and \$0.2M Airport Fringe Benefit. There was an increase in Airport reserves of \$6.4M due to revenues exceeding operating expenditures and 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 \$15.9M of which \$11.8M represents unspent budget funds which are earmarked for future use. The total reserve for future expenditure balance decreased \$2.8M from 2022 primarily due to previously received grants from the Okanagan Basin Water Board being transferred into the Septic Removal Specified Area Reserve Fund.

Water Utility

The Water Utility has a reserve for future expenditure balance of \$25.5M. This is a decrease of \$1.9M from 2022 and is primarily due to projects related to the Cedar Creek pump station.

Statutory Reserves

The Statutory reserves have a future expenditure balance of \$146.4M. This is an increase of \$13.4M which is primarily attributed to the Okanagan Basin Water Board grant transfer and 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 \$65.5M. Development Cost Charge collected totaled \$103.1M while expenditures were \$37.5M. The consolidated closing deferred DCC balance was \$213.7M.

Memo



Date: April 30, 2024
Rim No. 0220-20
To: Audit Committee
From: City Manager
Subject: 2023 Surplus from Operations

Report Prepared by: Divisional Director Financial Services

Recommendation:

That the 2023 General Fund Surplus of \$10,967,854 generated from operating and capital programs be distributed as per the City Manager’s memo of April 30, 2024.

Purpose:

To provide the Audit Committee with a summary of the 2023 surplus allocation and recommendation for the allocation of the unallocated portion of the 2023 General Fund surplus for contribution to reserve and accumulated surplus.

Background:

When the City’s annual realized revenues are greater than annual expenses, the result is an annual surplus. The accumulation of annual surpluses from prior years is called the accumulated surplus and is equal to the total of the City’s assets less liabilities. The City of Kelowna’s accumulated surplus is made up of four sections, unrestricted reserves referred to as General Reserves, restricted reserves referred to as Statutory Reserves, equity in tangible capital assets, and fund surplus which is the remainder of the balance.

As reported in the 2023 Consolidated Financial Statements, the 2023 year-end annual surplus is \$137.0M. This surplus by fund is as follows:

General fund	\$96.5
Airport fund	\$25.0
Wastewater fund	\$7.1
Water fund	\$3.3
Statutory reserve funds	\$5.1

Statutory reserve funds

The statutory reserve funds include the Parking, Land, Capital Works, Machinery and Equipment, Septic Removal Specified Area, and Public Amenity and Streetscape reserves. The \$5.1 million surplus that was generated in these reserve funds is the investment interest revenue earned on the balance in these reserves. This surplus revenue was contributed to the respective reserves and is included in the 2023 closing balance.

Water fund

The water fund provides for the capital construction, operation, and maintenance of the City's water utility. Revenues within this fund, or prior years' surplus, must be sufficient to cover all operating and capital costs of the utility on an annual basis. The 2023 annual surplus is \$3.3M. After capital transfers, contributions to reserves, and the entry for approved carryovers, a remaining \$3.0M is available to be contributed to the accumulated surplus to support future spending in the fund.

Waste Water fund

The waste water fund provides for the capital construction, operation, and maintenance of wastewater treatment including sewer mains, lift stations and treatment facilities. Revenues generated in this fund, or previous years' surplus, must be sufficient to offset all operating and capital costs of this utility on an annual basis. The 2023 annual surplus is \$7.1. After capital transfers, contributions to reserves, and the entry for approved carryovers, a remaining \$3.9M is available to be contributed to the accumulated surplus to be used to support future spending in the fund.

Airport fund

Kelowna International Airport operates within this fund, and is responsible for capital construction and ongoing administration, operation, and maintenance. This fund is required to be self-sufficient so that revenues generated must offset all operating and capital expenditures. The 2023 annual surplus is \$25M. This \$25M surplus has been contributed to the unrestricted Airport Airside, Groundside and Terminal reserves to be used to fund future capital projects identified as part of the Airport long-term capital plan.

General fund

The general fund is the largest fund and covers all municipal operations aside from the water, waste water and airport funds. This fund is not allowed to operate at a deficit. The difference between budgeted annual expenditures and other revenues generated by the fund forms the annual property tax levy. The 2023 annual surplus is \$96.5M. When we add back capital transfers, and entries related to capital, of \$80M, we have a surplus of \$176.5M. During 2023, \$165.5M of this surplus was contributed to general reserves for items such as interest revenue, transfers for the setup of the endowment fund, and grant funds received and contributed to reserve for future use. The remaining surplus that is available for allocation is \$11.0M.

Surplus allocation

The 2023 year-end general fund unallocated surplus is \$10,967,854. The major sources of this surplus are development related revenues in excess of budget of \$8.9M and unfinished projects requiring to be carried over into 2024 of \$5.2M partially offset by deficits in other areas.

The following allocation of the 2023 surplus is recommended in order to minimize risk where unanticipated circumstances may arise during the year; maintain acceptable reserve levels; and support Council priorities.

Unspent Budget Reserves	\$ 5,243,200	To fund projects that were not completed in 2023 as approved by Council through the 2024 Financial Plan – Carryover Budget - Volume 2.
Partnerships & Events	\$ 3,800,000	To help fund capital improvements to support the City’s bid to host the 2026 Memorial Cup and other major events.
DCC Road Bundle Assist	\$ 1,700,000	To fund the assist factor for the DCC Roads bundle being tendered in attempt to deliver a large amount deferred road infrastructure.

The remaining balance of \$224,654 will flow to accumulated surplus. The accumulated surplus balance provides for a surplus level of approximately \$5.25M which is approximately 3% of the 2023 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 Divisional Director of Financial Services will be pleased to discuss any of the information provided in this memorandum during the Audit Committee Meeting on April 30, 2024. 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 13, 2024
File: 0250-20
To: Council
From: Chair, Audit Committee
Subject: 2024 Audit Committee Meeting review and Financial Statements for the Year Ending December 31, 2023.

Report Prepared by: Divisional Director, Financial Services

Recommendation:

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

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

Purpose:

To provide a high-level review of the information provided to the Audit Committee during the meeting on April 30, 2024, to present the Financial Statements to Council for acceptance per the legislative requirement, and to seek approval to include the Financial Statements in the annual report.

Background:

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

Discussion:

The Audit Committee was provided with an in-depth review of the consolidated financial statements for the year ending December 31, 2023. There was a key theme that emerged which contributed to the City’s strong financial position. The continued increase in the City’s operations were reflected in the

increases in operating revenue and expenses. As net cashflows increased, more cash could be spent on capital projects and also reinvested, maximizing our return on cash for future needs.

Consolidated Statement of Financial Position:

The Consolidated Statement of Financial Position shows the City's Financial Assets of \$1.05B exceeding its liabilities of \$533M, indicating that the City has sufficient financial assets to settle its existing liabilities. The extent to which the City's assets exceed liabilities represents liquidity and is a positive indicator of the City's financial strength. In 2023, there was a \$205 million increase in Financial Assets offset by a \$130 million increase in Liabilities.

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

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

Non-financial assets increased \$94 million largely due to an increase of capital acquisitions.

Statement of Operations and Accumulated Surplus:

The Statement of Operations and Accumulated Surplus shows an increase of \$85 million in revenues totaling \$509M and a \$37 million increase in expenses totaling \$372 million. This has resulted in an annual surplus of \$137 million. These increases are a reflection of the continued increase in operations resulting in growth of non-taxation revenues combined with the higher operational output.

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

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

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

The increases in expenses such as salaries and wages, and facility maintenance and security contracts are also a product of the increase in operations across the organization. Cost escalations due to inflation was another contributor to the increase in expenses for 2023.

Total operating revenues over expenses has resulted in an annual surplus of \$137M and has increased the accumulated surplus to \$2.5 billion. This surplus supports the City in meeting its needs such as the 10-year capital plan and 20-year servicing plan. It also places the City in a good position to deal with catastrophic events or take advantage of opportunities without negatively impacting taxpayers.

Consolidated Statement of Cash Flows:

The Consolidated Statement of Cash Flows outlines the cash generated and used by the City's operations, capital, investing and financing activities. These activities resulted in a net increase of \$17 million in cash and cash equivalents, to end with balance of \$108 million.

Audit report:

The Audit report outlined the areas of review that took place and provided a clean audit opinion stating that the City of Kelowna's consolidated financial statements present fairly, in all material respects, the financial position of the City of Kelowna as at December 31, 2023, and the results of operations, its changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Conclusion:

The preparation for year-end and the audit process provides a detailed review and assessment of the City's financial results for the year ended December 31, 2023 and compares those results to the previous year actuals and budget. An increase in operating activities are reflected in the favorable 2023 financial results. However, the City is still experiencing economic challenges such as higher inflation. The City's strong financial position at the end of 2023 enables the City to take advantage of opportunities and overcome challenges.

Legal/Statutory Authority:

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

Considerations not applicable to this report:

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
Divisional Director, Financial Services
Controller
Financial Planning Manager
Grant Thornton LLP – Auditor - Mr. Tyler Neels, CPA, CA

Report to Council



Date: May 13, 2024
File: 0250-20
To: Council
From: Chair, Audit Committee
Subject: 2023 Surplus Appropriation

Report Prepared by: Divisional Director, Financial Services

Recommendation:

THAT Council approves the appropriation of \$10,967,854 of surplus generated from all general fund operations in 2023 to reserves and accumulated surplus as detailed in the Report from the Audit Committee dated May 13, 2024;

Purpose:

To provide Council with a recommendation on the appropriation of \$10,967,854 of surplus to general reserves and accumulated surplus.

Background:

City Administration has recommended the appropriation to reserves and accumulated surplus of 2023 surplus generated from all general fund operations, in the amount of \$10,967,854 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 2023 of \$224,654 and an accumulated surplus balance of \$5.25 million.

The recommended appropriations to reserves are:

Unspent budget reserves	\$ 5,243,200
Partnerships & Events	3,800,000
DCC Road Bundle Assist	1,700,000
Accumulated Surplus	<u>224,654</u>
	<u>\$10,967,854</u>

Financial/Budgetary Considerations:

The financial impact is that a total of \$10,743,200 will be transferred from surplus to reserves and \$224,654 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
Controller
Financial Planning Manager
Grant Thornton LLP – Auditor - Mr. Tyler Neels, CPA, CA