



2018

Consolidated Financial Statements

Kelowna, British Columbia, Canada

For the year ended December 31, 2018



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, 2018, and the consolidated statements of operations and accumulated surplus, consolidated statement of changes in net financial assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the City of Kelowna as at December 31, 2018, and the results of operations, its changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

Kelowna, Canada
April 30, 2019

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Chartered Professional Accountants

CITY OF KELOWNA
Consolidated Statement of Financial Position
As at December 31, 2018
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
Financial Assets		
Cash and cash equivalents (Note 3)	\$ 24,989	\$ 20,647
Accounts receivable (Note 3)	45,414	33,720
Accrued interest	1,585	1,425
Portfolio investments (Note 3)	495,817	417,264
Long term investments (Note 10)	6,000	6,000
Property held for resale	3,455	3,456
	<u>577,260</u>	<u>482,512</u>
Liabilities		
Accounts payable	50,922	43,946
Performance deposits	21,580	16,292
Deferred revenue (Note 3)	50,382	55,767
Deferred development cost charges (Note 3)	66,834	42,767
Long term debt (Note 3)	119,340	137,434
	<u>309,058</u>	<u>296,206</u>
Net Financial Assets	<u>268,202</u>	<u>186,306</u>
Non-Financial Assets		
Prepaid expenses	3,328	2,601
Inventory	1,484	1,218
Work in progress (Note 4)	35,373	23,096
Tangible capital assets (Note 4)	1,733,595	1,714,464
	<u>1,773,780</u>	<u>1,741,379</u>
Accumulated Surplus (Note 5)	<u>\$ 2,041,982</u>	<u>\$ 1,927,685</u>

Contingent liabilities and Commitments (Notes 8 and 9)



Genelle Davidson, CPA, CMA
Divisional Director, Financial Services



Colin Basran
Mayor, City of Kelowna

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Consolidated Statement of Operations and Accumulated Surplus
For the Year Ended December 31, 2018
(in thousands of dollars)

	Budget 2018	Actual 2018	Actual 2017
Revenue			
Taxation (Note 6)	\$ 145,720	\$ 145,944	\$ 139,395
Fees and charges	122,147	152,536	125,623
Interest earned	4,111	12,821	10,325
DCC contributions	21,027	12,929	9,533
Government transfers (Note 7)	81,015	49,019	21,559
Other capital contributions	6,800	23,028	10,694
Gain on disposal of tangible capital assets	-	4,603	5,922
	<u>380,820</u>	<u>400,880</u>	<u>323,051</u>
Expenses			
General government	33,757	30,373	27,810
Protective services	61,636	60,946	58,909
Transportation	37,510	63,743	61,570
Recreation & cultural	37,250	44,642	42,858
Other services	22,346	24,138	21,905
Airport	15,385	23,004	20,698
Natural Gas Legacy	2,264	2,723	3,856
Wastewater	13,671	22,608	22,896
Water	7,819	13,458	11,212
Loss on disposal of tangible capital assets	-	462	336
Write down of tangible capital assets	-	486	440
	<u>231,638</u>	<u>286,583</u>	<u>272,490</u>
Annual Surplus	<u>\$ 149,182</u>	<u>114,297</u>	<u>50,561</u>
Accumulated Surplus, beginning of year		<u>1,927,685</u>	<u>1,877,124</u>
Accumulated Surplus, end of year		<u>\$ 2,041,982</u>	<u>\$ 1,927,685</u>

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Consolidated Statement of Changes in Net Financial Assets
For the Year Ended December 31, 2018
(in thousands of dollars)

	Budget 2018	Actual 2018	Actual 2017
Annual Surplus	\$ 149,182	\$ 114,297	\$ 50,561
Amortization of tangible capital assets	-	66,989	64,888
Proceeds from disposal of tangible capital assets	-	39,148	8,566
(Gain) loss on disposal of tangible capital assets	-	(4,141)	(5,586)
Write down of tangible capital assets	-	486	440
Acquisition of tangible capital assets	(197,659)	(114,637)	(84,395)
Contributions of tangible capital assets	-	(19,253)	(4,433)
Change in inventory and prepaid expenses	-	(993)	(439)
Increase (decrease) in Net Financial Assets	(48,477)	81,896	29,602
Net Financial Assets, beginning of year	186,306	186,306	156,704
Net Financial Assets, end of year	\$ 137,829	\$ 268,202	\$ 186,306

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
(in thousands of dollars)

	<u>Actual 2018</u>	<u>Actual 2017</u>
Net inflow (outflow) of cash and cash equivalents related to the following activities		
Operating		
Annual surplus	\$ 114,297	\$ 50,561
Adjustment for non-cash items		
Amortization of tangible capital assets	66,989	64,888
(Gain) loss on disposal of tangible capital assets	(4,141)	(5,586)
Write down of tangible capital assets	486	440
Actuarial adjustment on long term debt	(6,545)	(5,711)
Contributions of tangible capital assets	(19,253)	(4,433)
Termination of debt	(2,132)	-
Decrease (increase) in		
Accounts receivable	(11,694)	(3,441)
Inventory and prepaid expenses	(993)	(439)
Other assets	(160)	(92)
Increase (decrease) in		
Accounts payable	6,979	(2,633)
Deferred development cost charges	24,067	17,392
Other liabilities	(98)	21,595
	<u>167,802</u>	<u>132,541</u>
Capital		
Acquisition of tangible capital assets	(114,637)	(84,395)
Proceeds from disposal of tangible capital assets	39,148	8,566
	<u>(75,489)</u>	<u>(75,829)</u>
Investing		
Change in investments	<u>(78,553)</u>	<u>(50,757)</u>
Financing		
Proceeds from issuance of long term debt	8,485	11,000
Repayment of long term debt	(17,903)	(14,269)
	<u>(9,418)</u>	<u>(3,269)</u>
Net increase in cash and cash equivalents	4,342	2,686
Cash and cash equivalents, beginning of year	<u>20,647</u>	<u>17,961</u>
Cash and cash equivalents, end of year	<u>\$ 24,989</u>	<u>\$ 20,647</u>
Non-cash capital activities		
Acquisition of tangible capital assets through contributions (Note 4)	\$ 19,253	\$ 4,433

See accompanying notes to the consolidated financial statements.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's 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, Natural Gas Legacy, 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.

The Natural Gas Legacy Fund was created from an agreement with FortisBC for a 35 year capital lease for the natural gas distribution system within the City's municipal boundary and a 17 year operating lease, expiring in 2018, whereby the City leased back to FortisBC the operations of the gas distribution system. The Natural Gas Legacy Fund is accounted for in its own fund. On October 31, 2018 Fortis exercised their right to terminate the Capital and Operating Lease by delivery of written notice to the City. The Termination Payment has been calculated in accordance with the Capital Lease and the Additions Lease and as a result the City releases and discharges any interest it may have in or related to the Gas Distribution Assets and Additions and has closed out the Natural Gas Legacy Fund. The City has signed an operating agreement with FortisBC Energy Inc. to receive an operating fee based on a percentage of gross revenues.

South East Kelowna Irrigation District ("SEKID"): On June 5, 2018 (the "transfer date"), the City commenced ownership and operations of the SEKID Water Operations. As of the transfer date, SEKID was dissolved by an Order of the Lieutenant Governor in Council. The Order in Council set out that all rights, property and assets of SEKID were to be transferred to and vested in the City of Kelowna. The City assumed the obligations of SEKID and any reference to SEKID in any commercial paper, lease, permit or other contract or instrument or document that is transferred is deemed to be a reference to the City of Kelowna. Financial assets in the amount of \$10,539,511, liabilities in the amount of \$791,465 and non-financial assets in the amount of \$11,692,245 were transferred to the City on June 5, 2018 and have been integrated into the Water Fund.

Accrual accounting

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

Property held for resale

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

Inventory

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's of dollars)

Municipal Finance Authority cash deposits and demand notes

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

	2018	2017
Cash deposits held by MFA	\$ 2,401	\$ 3,566
Demand notes held by MFA	6,731	9,658
	<u>\$ 9,132</u>	<u>\$ 13,224</u>

Municipal pension plan

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

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.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
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(all tabular amounts reported in 000's 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.

Intangible assets

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

Interest capitalization

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

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.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's of dollars)

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.

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, natural gas 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.

DCC contributions

DCCs are recognized as revenue during the period in which the related costs are incurred.

Government transfers

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

Investment income

The City's investments are disclosed in Note 3.

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

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

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

Expenses

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's 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.

There are no liabilities to be recorded as at December 31, 2018 and 2017.

Use of estimates

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

2. Future accounting changes

PS 3041 – Portfolio investments

This section revises and replaces the existing Section PS 3040 *Portfolio investments*. This section applies to fiscal years beginning on or after April 1, 2021, with early adoption permitted.

PS 3280 Asset retirement obligations

This section revises and replaces the existing Section PS 3270 *Solid waste landfill closure and post-closure liability*. This section applies to fiscal years beginning on or after April 1, 2021, 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, 2022, with early adoption permitted.

PS 3450 – Financial instruments

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal years beginning on or after April 1, 2021, with early adoption permitted.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's 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>2018</u>	<u>2017</u>
Property tax	\$ 4,279	\$ 4,257
Trade receivables	17,169	12,981
Due from government	5,748	3,016
Due from provincial government	4,373	3,990
Due from regional government	64	4
Utilities	3,996	3,953
Deferred development cost charges	9,785	5,519
	<u>\$ 45,414</u>	<u>\$ 33,720</u>

Portfolio investments

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

<u>Type of investment</u>	<u>2018</u>	<u>2017</u>
Municipal Finance Authority bond / Intermediate Funds	\$ 106,139	\$ 103,646
Provincial and bank issued bonds	95,030	98,446
Publicly traded shares	62,748	60,654
Guaranteed Investment Certificates and deposit notes	231,900	154,518
Total Portfolio investments	<u>\$ 495,817</u>	<u>\$ 417,264</u>

The quoted market value of the publicly traded shares at December 31, 2018 was \$85.91 million (2017 - \$85.09 million).

Operating line of credit

The City has an operating line of credit with the Royal Bank of Canada for an authorized amount of \$5.0 million, bearing interest at bank prime rate. At December 31, 2018 the balance outstanding was \$nil (2017 - \$nil).

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's of dollars)

Deferred revenue

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

<u>Deferred Revenue by Type</u>	<u>2017</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2018</u>
Tax prepayments	\$ 18,919	\$ 19,784	\$ 55	\$ 18,919	\$ 19,839
Construction	11,890	1,965	138	1,092	12,901
Grants	14,448	586	194	6,718	8,510
Other	6,366	7,735	29	9,311	4,819
Local Area Service	4,144	1,709	-	1,540	4,313
Total	<u>\$ 55,767</u>	<u>\$ 31,779</u>	<u>\$ 416</u>	<u>\$ 37,580</u>	<u>\$ 50,382</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>2017</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2018</u>
Parks	\$ 10,300	\$ 10,864	\$ 275	\$ 3,161	\$ 18,278
Roads	30,038	15,826	782	3,596	43,050
Water	12,094	1,268	289	222	13,429
Wastewater	(9,665)	7,939	(247)	5,950	(7,923)
Total Deferred DCC	<u>\$ 42,767</u>	<u>\$ 35,897</u>	<u>\$ 1,099</u>	<u>\$ 12,929</u>	<u>\$ 66,834</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>
2019	\$ 16,677
2020	12,291
2021	10,286
2022	9,647
2023	8,403
2024 and thereafter	62,036
Total	<u>\$ 119,340</u>

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's of dollars)

Total debt issued was \$283.9 million and total debt payable at December 31, 2018 was \$119.3 million (2017 - \$137.4 million).

Schedule 3 provides a breakdown of long term debt.

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

	2018 Work in progress	2018 Tangible capital assets (NBV)	2017 Work in progress	2017 Tangible capital assets (NBV)
Land	\$ -	\$ 303,532	\$ -	\$ 280,235
Land improvements	327	37,168	910	32,135
Buildings	2,762	194,848	2,935	197,056
Infrastructure	31,013	1,121,799	16,362	1,104,034
Machinery and equipment	1,271	76,248	2,889	71,405
Natural gas system (capital lease)	-	-	-	29,599
	<u>\$ 35,373</u>	<u>\$ 1,733,595</u>	<u>\$ 23,096</u>	<u>\$ 1,714,464</u>

Contributions received in 2018 include:

<u>Type of contribution</u>	<u>2018</u>	<u>2017</u>
Land	\$ 2,326	\$ 4,433
Land improvements	122	-
Buildings	126	-
Infrastructure	16,420	-
Machinery and equipment	259	-
Total Contributed tangible capital assets	<u>\$ 19,253</u>	<u>\$ 4,433</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 \$486,223 were written off due to impairment.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2018
(all tabular amounts reported in 000's of dollars)

5. Accumulated surplus

	Reserves for Future Expenditures	Equity in FortisBC Inc.	Statutory Reserves	Fund Surpluses	Investment in Tangible Capital Assets	Total 2018	Total 2017
Accumulated surplus, beginning of year	\$ 139,188	\$ 60,692	\$ 70,978	\$ 53,726	\$ 1,603,101	\$ 1,927,685	\$ 1,877,124
Annual surplus (deficit)	4,887	-	2,076	119,173	(11,839)	114,297	50,561
Transfers	138,390	(60,692)	10,642	(88,340)	-	-	-
Acquisition of tangible capital assets	(28,725)	-	-	(15,530)	44,255	-	-
Repayment of long term debt	-	-	-	(14,861)	14,861	-	-
Accumulated surplus, end of year	\$ 253,740	\$ -	\$ 83,696	\$ 54,168	\$ 1,650,378	\$ 2,041,982	\$ 1,927,685

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	\$ 80,309	\$ 20,115	\$ 123,522	\$ 4,043	\$ 187,759
Airport Fund reserve	27,420	23,963	21,810	466	25,733
Waste Water Fund reserve	13,033	7,582	6,651	52	12,154
Water Fund reserve	18,426	5,302	14,644	326	28,094
	<u>139,188</u>	<u>56,962</u>	<u>166,627</u>	<u>4,887</u>	<u>253,740</u>
<u>Statutory Reserves</u>					
Parking reserve	2,443	1,575	5,236	77	6,181
Land reserve	12,273	9,234	11,350	383	14,772
Capital works, machinery and equipment reserve	56,262	16,005	20,870	1,616	62,743
	<u>70,978</u>	<u>26,814</u>	<u>37,456</u>	<u>2,076</u>	<u>83,696</u>
<u>Surplus by Fund</u>					
General Fund surplus	4,651	140,621	74,256	66,172	4,458
Airport Fund surplus	596	23,886	5,009	19,756	1,475
Waste Water Fund surplus	30,522	16,748	8,916	12,458	35,148
Water Fund surplus	13,483	16,446	(63)	16,113	13,087
Natural Gas Legacy surplus	4,474	9,148	-	4,674	-
Accumulated Surplus	<u>53,726</u>	<u>206,849</u>	<u>88,118</u>	<u>119,173</u>	<u>54,168</u>
<u>Equity Investment</u>					
Equity in FortisBC Inc.	<u>60,692</u>	<u>60,692</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Investment in Non Financial Assets</u>					
Investment in tangible capital assets	<u>1,603,101</u>	<u>3,022</u>	<u>62,138</u>	<u>(11,839)</u>	<u>1,650,378</u>
Accumulated Surplus	\$ 1,927,685	\$ 354,339	\$ 354,339	\$ 114,297	\$ 2,041,982

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Notes to the Consolidated Financial Statements
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6. Taxation

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

	<u>2018</u>	<u>2017</u>
Taxes collected		
Property taxes	\$ 229,253	\$ 219,875
Local improvement levies	158	156
Frontage tax - water	1,483	1,457
Specified sewer area recoveries	1,398	1,398
Grants in lieu of taxes	570	514
Levies	7,316	7,010
	<u>240,178</u>	<u>230,410</u>
Less transfers to other governments		
Province of BC (school taxes)	68,641	66,049
BC Assessment Authority	1,981	1,854
Regional Hospital District	11,691	11,507
Regional District of Central Okanagan	11,921	11,605
	<u>94,234</u>	<u>91,015</u>
Net taxes available for municipal purposes	<u>\$ 145,944</u>	<u>\$ 139,395</u>

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7. Government transfers

Government transfers are the major source of transfers to the City. Government transfers received are for completed projects that meet the required criteria as set out by the Government body providing the funding. Government transfers do not include grants in lieu of taxes received from the Federal and Provincial governments. During the year \$7.9 million remained as deferred revenue for future capital expenditures. In 2018 the City received and recorded as revenue the following transfers:

	<u>2018</u>	<u>2017</u>
Operating transfers		
Federal	\$ 173	\$ 148
Provincial	19,637	17,585
Other governments	212	187
	<u>20,022</u>	<u>17,920</u>
Capital transfers		
Federal	12,328	2,695
Provincial	16,639	944
Other governments	30	-
	<u>28,997</u>	<u>3,639</u>
Total Government transfers	<u>\$ 49,019</u>	<u>\$ 21,559</u>

8. Contingent liabilities

Regional District of Central Okanagan

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

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

Pension liability

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2017, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local governments.

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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, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The City of Kelowna paid \$7.2 million (2017 - \$6.9 million) for employer contributions while employees contributed \$5.9 million (2017 - \$5.5 million) to the plan in fiscal 2018.

The next valuation will be as at December 31, 2018, with results available in 2019.

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

Post employment benefits

The City of Kelowna does not accrue expenses for post employment benefits such as retirement allowances or compensated absences (sick leave). City employees retiring do not receive any retirement allowance that either vests or accrues over the period of employment. Sick benefits do not accrue and are not vested. The City recognizes the expense for sick time 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 from one to five years.

The City has purchase orders open as at December 31, 2018 which have not been recorded in the accounts. The balance of these open purchase orders are 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.

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Landfill closure and post closure costs

As required by PSAS and regulated by the Ministry of Water, Land and Air Protection, the City has agreed to obligations regarding the operation of the landfill site. These obligations include recognition of closure and post-closure liability. As currently engineered, and based on current waste disposal patterns, the landfill has a remaining life expectancy of 90 years. The estimated length of time needed for post-closure is 80 years.

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

The City's liability for these landfill closure and post-closure care cost expenditures is recognized as the landfill site's capacity is used. The reported liability of \$4.0 million (2017 - \$3.8 million) represents the portion of the estimated total expenditure recognized as at December 31, 2018. The remaining capacity of the landfill site is estimated at 27.7 million tonnes which is 92% of the site's total capacity.

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

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

YMCA of Okanagan Association loan guarantee agreement

The City has, under the terms of the partnering agreement between the City of Kelowna and YMCA of Okanagan Association, guaranteed repayment in the event that the YMCA of Okanagan Association defaults on a \$1.8 million, 20-year loan issued in 2001. Under the agreement the City shall resume operation of the facility and assume responsibility for the repayment of the debt incurred by the YMCA of Okanagan Association. During 2010 an amendment was made to the agreement for additional financing of \$700,000 for a 20-year term. As at December 31, 2018, the outstanding loan balance was \$765,079 (2017 - \$879,437). 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 has, under the terms of the Preferred Share Agreement between the City of Kelowna and RG Properties Ltd., purchased \$6.0 million of preferred shares in RG Arenas (Kelowna) Ltd. at a cost of \$1 per share. The terms and conditions of the purchase are subject to the terms of a 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.

The City has, under the terms of the above noted Tripartite Agreement, committed to the annual purchase of community use time at the Multi-Purpose facility, commencing with substantial completion, on November 10, 1999 under the following terms:

- (i) \$1.3 million per annum for Years 1 to 3 comprised of a payment of \$1.1 million, which for Years 2 and 3 is subject to a minimum CPI increase of 1% per annum and a maximum average CPI increase of 5% per annum, plus an annual payment of \$150,000 without any adjustment for CPI;
- (ii) \$1.2 million per annum for Years 4 to 7, subject to a minimum CPI increase of 1% per annum and a maximum average CPI increase of 5% per annum;
- (iii) \$1.2 million per annum for Years 8 to 10, subject to a minimum CPI increase of 1% per annum and a maximum average CPI increase of 5% per annum, minus \$150,000 per annum;

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- (iv) \$1.0 million per annum for Years 11 to 20, subject to a minimum CPI increase of 1% per annum and a maximum average CPI increase of 5% per annum; and
- (v) \$0.5 million per annum for Years 21 to 30, subject to a minimum CPI increase of 1% per annum and a maximum average CPI increase of 5% per annum.

The year 2018 represented year 19 of the agreement.

Should the City not exercise, in its sole discretion, its option to renew any future term for community use time in the Multi-Purpose facility, under the above terms it shall be required to make a lump sum payment to RG Arenas (Kelowna) Ltd. on or before the 15th day of one of year 6, 11, 16, 21 or 26 commencing with the year of substantial completion in the following amounts:

2005	Year 6	\$13.2 million
2010	Year 11	\$11.9 million
2015	Year 16	\$10.4 million
2020	Year 21	\$6.7 million
2025	Year 26	\$4.5 million

Upon such payment, no further amounts will be payable to RG Arenas (Kelowna) Ltd. and the City will have the right to the community use time for the period from the beginning of the year in which the payment was made until November 9, 2029 without any additional payment.

The City did exercise its option to renew the purchase of community use time under the above annual payments terms and accordingly did not make any of the lump sum payment of \$13.2 or \$11.9 or \$10.4 million otherwise due to RG Arenas (Kelowna) Ltd. in years 6 or 11 or 16.

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. The company is inactive with no assets or liabilities and is being retained for potential future use.

RG Arenas (Kelowna) Ltd.

The investment in preferred shares in RG Arenas (Kelowna) Ltd. is carried at its cost of \$6.0 million. The shares were purchased under the terms of the Preferred Share Agreement between the City of Kelowna and RG Properties Ltd. and are to be retained until 2029 per the terms of that agreement described in Note 9.

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Notes to the Consolidated Financial Statements
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11. Letters of credit

In addition to the performance deposits reflected in cash balances, the City is holding irrevocable Letters of Credit in the amount of \$45.0 million (2017 - \$36.4 million) which were received from depositors to ensure their performance of works to be undertaken within the City. These amounts are not reflected in the financial statements but are available to satisfy any liabilities arising from non-performance by the depositors. Included in the \$45.0 million, the City is holding irrevocable Letters of Credit in the amount of \$7.9 million (2017 - \$5.7 million) which are received from developers to ensure payment of development cost charges in future years.

12. Capital lease payable

The City had entered into an agreement with FortisBC Energy Inc. ("FortisBC") that resulted in the creation of the Natural Gas Legacy Fund. The agreement with FortisBC was for a 35 year capital lease for the natural gas distribution system within the City's municipal boundary and a 17 year operating lease, expiring in 2018, whereby the City leased back to FortisBC the operations of the gas distribution system.

On October 31, 2018 Fortis exercised their right to terminate the Capital and Operating Lease by delivery of written notice to the City. The Termination Payment has been calculated in accordance with the Capital Lease and the Additions Lease and as a result the City releases and discharges any interest it may have in or related to the Gas Distribution Assets and Additions. These interests include: the Lease In Lease Out ("LILO") Agreements and any right or interest of the City under the LILO Agreements, the unexpired Term of the LILO Agreements, and any right of the City to or related to the Gas Distribution Assets and the Additions pursuant to the LILO Agreements and City Security, with the intent that all of these rights will merge into the reversion of the LILO Agreements and be forever extinguished. As part of the termination of the Capital Lease obligation \$2.2 million of debt payments set up from Oct 2018 to 2036 were removed from the City's financial records. The City has signed an operating agreement with FortisBC Energy Inc. to receive an operating fee based on a percentage of gross revenues.

13. Trust funds

In accordance with PSAS, trust funds are not included in the City's consolidated financial statements. The City administers a Cemetery Maintenance Fund for the perpetual care and maintenance of the City owned and operated cemetery. As at December 31, 2018 the Trust Fund balance is \$2.9 million (2017 - \$2.8 million).

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Notes to the Consolidated Financial Statements
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14. Segmented information

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

General government

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

Protective services

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

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

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

Transportation services

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

Recreation and cultural services

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

Other services (Public Health/Environmental/Development services)

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

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Airport services

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

Wastewater services

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

Water services

The Water Utility is responsible for planning, designing, building, operating and maintaining the City's Water Utility and is one of four water suppliers operating within Kelowna's boundaries. During the current year, the operations and assets of SEKID were transferred to the City of Kelowna to the water fund. The Water Utility is accounted for in its own fund.

Natural Gas legacy services

Natural Gas Legacy Fund was created from an agreement with FortisBC for a 35 year capital lease for the natural gas distribution system within the City's municipal boundary and a 17 year operating lease, expiring in 2018, whereby the City leased back to FortisBC the operations of the gas distribution system. The Natural Gas Legacy Fund was accounted for in its own fund. As at October 31, 2018 Fortis terminated this agreement and the City has closed out this fund and excess reserve funds were transferred to the General Fund.

Statutory reserves

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

15. Expenses by object

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

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Notes to the Consolidated Financial Statements
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16. 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	\$ 297,758
Capital budget	83,062
	<u>380,820</u>
Expenses:	
Operating budget	231,638
Capital budget	197,659
	<u>429,297</u>
Annual deficit per approved budget	(48,477)
Add: tangible capital asset purchases	197,659
Annual surplus per statement of operations	<u><u>\$ 149,182</u></u>

17. Comparative figures

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

CITY OF KELOWNA
Schedule 1 - Tangible Capital Assets
For the Year Ended December 31, 2018
(in thousands of dollars)

Machinery & Equipment								
	Land	Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computers	Subtotal Machinery & Equipment	Natural Gas Capital Lease
Cost								
Balance, beginning of year	\$ 280,235	\$ 68,311	\$ 342,908	\$ 31,410	\$ 92,102	\$ 13,172	\$ 136,684	\$ 55,609
Add: additions during the year	29,063	744	1,576	2,301	5,421	905	8,627	-
Add: transfers to tangible capital assets	2	7,031	5,708	-	1,540	2,957	4,497	-
Less: capital held for resale	1	-	324	-	-	-	-	-
Less: disposals during the year	(5,769)	(246)	(393)	(1,344)	(560)	(273)	(2,177)	(55,609)
Balance, end of year	303,532	75,840	350,123	32,367	98,503	16,761	147,631	-
Accumulated Amortization								
Balance, beginning of year	-	36,175	145,852	19,267	38,507	7,506	65,280	26,010
Add: amortization	-	2,497	9,491	1,939	4,510	1,328	7,777	800
Less: accumulated amortization on disposals	-	-	(393)	(1,114)	(560)	-	(1,674)	(26,810)
Less: amortization on buildings held for resale	-	-	325	-	-	-	-	-
Balance, end of year	-	38,672	155,275	20,092	42,457	8,834	71,383	-
Net Book Value of Tangible Capital Assets	\$ 303,532	\$ 37,168	\$ 194,848	\$ 12,275	\$ 56,046	\$ 7,927	\$ 76,248	\$ -

	Infrastructure								
	Plant & Facilities	Roads, Lanes, Sidewalks & Bike Paths	Bridges, Tunnels & Overpasses	Underground, Overhead & Other Networks	Airport Infrastructure	Subtotal Infrastructure	Work In Progress	Total 2018	Total 2017
Cost									
Balance, beginning of year	\$ 199,494	\$ 530,065	\$ 33,872	\$ 1,074,183	\$ 61,095	\$ 1,898,709	\$ 23,096	\$ 2,805,552	\$ 2,721,921
Add: additions during the year	693	6,562	244	12,656	900	21,055	72,819	133,884	88,750
Add: transfers to tangible capital assets	6,187	17,242	-	7,313	12,562	43,304	(60,542)	-	-
Less: capital held for resale	-	-	-	-	-	-	-	325	78
Less: disposals during the year	-	(31)	-	(139)	-	(170)	-	(64,364)	(5,197)
Balance, end of year	206,374	553,838	34,116	1,094,013	74,557	1,962,898	35,373	2,875,397	2,805,552
Accumulated Amortization									
Balance, beginning of year	75,091	292,186	8,633	390,675	28,090	794,675	-	1,067,992	1,004,881
Add: amortization	7,070	20,096	518	16,235	2,505	46,424	-	66,989	64,888
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(28,877)	(1,777)
Less: amortization on buildings held for resale	-	-	-	-	-	-	-	325	-
Balance, end of year	82,161	312,282	9,151	406,910	30,595	841,099	-	1,106,429	1,067,992
Net Book Value of Tangible Capital Assets	\$ 124,213	\$ 241,556	\$ 24,965	\$ 687,103	\$ 43,962	\$ 1,121,799	\$ 35,373	\$ 1,768,968	\$ 1,737,560

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2018
(in thousands of dollars)

	General Government	Protective Services	Transportation	Recreation & Cultural	Other Services	Airport	Wastewater	Water	Natural Gas Legacy	Library	Statutory Reserves	2018
Revenue												
Taxation	\$ 142,879	\$ -	\$ 158	\$ -	\$ -	\$ -	\$ 1,398	\$ 1,509	\$ -	\$ -	\$ -	\$ 145,944
Fees and charges	15,175	10,443	16,534	5,641	25,444	35,173	17,216	23,452	3,246	-	212	152,536
Interest earned	8,461	-	-	-	-	544	788	660	504	-	1,864	12,821
DCC contributions	-	-	1,253	5,504	-	-	5,950	222	-	-	-	12,929
Government transfers	3,147	4,185	19,364	3,437	2,952	1,035	272	14,627	-	-	-	49,019
Other capital contributions	3,835	-	-	-	-	788	1,673	13,411	3,321	-	-	23,028
Gain on disposal of tangible capital assets	4,268	9	-	-	-	-	-	-	326	-	-	4,603
	<u>177,765</u>	<u>14,637</u>	<u>37,309</u>	<u>14,582</u>	<u>28,396</u>	<u>37,540</u>	<u>27,297</u>	<u>53,881</u>	<u>7,397</u>	<u>-</u>	<u>2,076</u>	<u>400,880</u>
Expenses												
Salaries and benefits	17,676	28,172	8,362	11,400	7,607	4,388	3,363	2,891	-	-	-	83,859
Contract and professional services	5,602	3,563	26,118	8,488	8,175	1,546	611	2,485	-	-	-	56,588
RCMP Contract	-	28,485	-	-	-	-	-	-	-	-	-	28,485
Materials and supplies	5,881	2,033	5,697	11,296	1,641	7,326	1,151	1,137	-	-	-	36,162
Equipment	698	633	2,656	1,645	2,888	19	680	492	-	-	-	9,711
Allocations	(4,815)	(56)	(98)	(172)	(208)	1,591	2,972	845	20	-	-	79
Cost recoveries	(1,303)	(4,274)	(8,817)	(361)	(1,534)	(660)	(287)	(557)	-	-	-	(17,793)
Grants and external transfers	8	142	5	1,673	3,437	-	-	-	-	-	-	5,265
Utilities	176	362	1,770	2,111	319	768	1,161	986	-	-	-	7,653
Loss on disposal of tangible capital assets	236	215	11	-	-	-	-	-	-	-	-	462
Write down of tangible capital assets	307	-	89	9	-	-	-	81	-	-	-	486
Amortization of tangible capital assets	3,295	1,888	28,050	8,562	1,813	7,210	10,645	4,726	800	-	-	66,989
Total before Debt	<u>27,761</u>	<u>61,163</u>	<u>63,843</u>	<u>44,651</u>	<u>24,138</u>	<u>22,188</u>	<u>20,296</u>	<u>13,086</u>	<u>820</u>	<u>-</u>	<u>-</u>	<u>277,946</u>
Debt interest and fiscal services	3,152	-	-	-	-	816	2,313	453	1,903	-	-	8,637
Total operating expenses	<u>30,913</u>	<u>61,163</u>	<u>63,843</u>	<u>44,651</u>	<u>24,138</u>	<u>23,004</u>	<u>22,609</u>	<u>13,539</u>	<u>2,723</u>	<u>-</u>	<u>-</u>	<u>286,583</u>
Annual Surplus (Deficit)	<u>\$ 146,852</u>	<u>\$ (46,526)</u>	<u>\$ (26,534)</u>	<u>\$ (30,069)</u>	<u>\$ 4,258</u>	<u>\$ 14,536</u>	<u>\$ 4,688</u>	<u>\$ 40,342</u>	<u>\$ 4,674</u>	<u>\$ -</u>	<u>\$ 2,076</u>	<u>\$ 114,297</u>

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2017
(in thousands of dollars)

	General Government	Protective Services	Transportation	Recreation & Cultural	Other Services	Airport	Wastewater	Water	Natural Gas Legacy	Library	Statutory Reserves	2017
Revenue												
Taxation	\$ 136,357	\$ -	\$ 156	\$ -	\$ -	\$ -	\$ 1,398	\$ 1,484	\$ -	\$ -	\$ -	\$ 139,395
Fees and charges	12,323	8,738	13,592	5,519	20,659	31,905	16,291	11,772	3,990	408	426	125,623
Interest earned	7,199	-	-	-	-	303	716	446	107	-	1,554	10,325
DCC contributions	-	-	3,497	526	-	-	5,477	33	-	-	-	9,533
Government transfers	1,727	4,192	9,294	284	2,520	2,054	246	1,242	-	-	-	21,559
Other capital contributions	5,697	-	-	-	-	514	1,441	483	2,559	-	-	10,694
Gain on disposal of tangible capital assets	5,922	-	-	-	-	-	-	-	-	-	-	5,922
	<u>169,225</u>	<u>12,930</u>	<u>26,539</u>	<u>6,329</u>	<u>23,179</u>	<u>34,776</u>	<u>25,569</u>	<u>15,460</u>	<u>6,656</u>	<u>408</u>	<u>1,980</u>	<u>323,051</u>
Expenses												
Salaries and benefits	16,980	27,135	8,214	11,037	6,973	4,406	3,312	2,432	-	16	-	80,505
Contract and professional services	4,226	2,293	24,269	7,726	7,467	1,155	502	812	-	143	-	48,593
RCMP Contract	-	28,553	-	-	-	-	-	-	-	-	-	28,553
Materials and supplies	5,587	1,984	5,077	10,818	1,398	6,187	1,239	990	-	19	-	33,299
Equipment	511	713	2,825	1,565	2,206	28	619	485	-	2	-	8,954
Allocations	(5,287)	(51)	(113)	(172)	115	1,437	3,232	897	20	-	-	78
Cost recoveries	(961)	(3,580)	(8,369)	(270)	(1,464)	(534)	(181)	(543)	-	-	-	(15,902)
Grants and external transfers	5	115	6	1,630	2,918	-	-	-	-	-	-	4,674
Utilities	189	297	2,257	2,062	220	670	1,211	1,062	-	46	-	8,014
Loss on disposal of tangible capital assets	336	-	-	-	-	-	-	-	-	-	-	336
Write down of tangible capital assets	101	-	83	20	-	-	227	9	-	-	-	440
Amortization of tangible capital assets	2,803	1,450	27,404	8,462	1,772	6,081	10,639	4,605	1,600	72	-	64,888
Total before Debt	<u>24,490</u>	<u>58,909</u>	<u>61,653</u>	<u>42,878</u>	<u>21,605</u>	<u>19,430</u>	<u>20,800</u>	<u>10,749</u>	<u>1,620</u>	<u>298</u>	<u>-</u>	<u>262,432</u>
Debt interest and fiscal services	3,757	-	-	-	-	1,268	2,323	472	2,236	2	-	10,058
Total operating expenses	<u>28,247</u>	<u>58,909</u>	<u>61,653</u>	<u>42,878</u>	<u>21,605</u>	<u>20,698</u>	<u>23,123</u>	<u>11,221</u>	<u>3,856</u>	<u>300</u>	<u>-</u>	<u>272,490</u>
Annual Surplus (Deficit)	<u>\$ 140,978</u>	<u>\$ (45,979)</u>	<u>\$ (35,114)</u>	<u>\$ (36,549)</u>	<u>\$ 1,574</u>	<u>\$ 14,078</u>	<u>\$ 2,446</u>	<u>\$ 4,239</u>	<u>\$ 2,800</u>	<u>\$ 108</u>	<u>\$ 1,980</u>	<u>\$ 50,561</u>

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2018
(in thousands of dollars)

Long term debt - General Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance December 31, 2017	Amount of Issue	Debt Balance December 31, 2018	Sinking Fund Balance December 31, 2018	Current Interest Rate
	Public Works					%
2019	South Pandosy Spec Area 1	\$ 34	\$ 234	\$ 18	\$ 216	2.10
2019	South Pandosy Spec Area 2	60	410	31	379	2.10
2019	Automated Curb Side Carts	1,119	4,810	570	4,240	4.13
2022	Chapman Parkade	1,414	4,071	1,158	2,913	2.10
2028	DCC Roads	1,233	10,400	-	10,400	5.15
	Local Improvements					
2019	Local Improvements	10	69	5	64	2.10
2035	Lawrence Ave LAS	309	345	296	49	3.00
	Recreation and Cultural					
2021	Kokanee Gym Facility	142	500	109	391	1.75
2027	H2O Centre	16,412	27,500	15,045	12,455	4.82
2027	Kokanee Gymnastic	478	800	438	362	4.82
2028	H2O Centre	1,289	2,000	1,194	806	5.15
2035	Police Facilities	18,561	20,000	17,803	2,197	2.75
2035	Library Parkade Ext & Memorial Parkade	13,921	15,000	13,352	1,648	2.75
2036	Police Facilities	16,399	17,000	15,777	1,223	2.60
2037	Police Facilities	3,000	3,000	2,888	112	3.15
2038	Police Facilities	-	1,360	1,360	-	3.15
<u>Total Debt - General Fund</u>		<u>\$ 74,381</u>	<u>\$ 107,499</u>	<u>\$ 70,044</u>	<u>\$ 37,455</u>	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2018
(in thousands of dollars)

Long term debt - Wastewater Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance December 31, 2017	Amount of Issue	Debt Balance December 31, 2018	Sinking Fund Balance December 31, 2018	Current Interest Rate
	Specified Area Programs					%
2018	Spec. Area 18 - Caramillo	\$ 10	\$ 135	\$ -	\$ 135	4.65
2018	Spec. Area 19 - Poplar Point	6	77	-	77	4.65
2022	Spec. Area 22A - Gerstmar	14	40	11	29	1.75
2024	Spec. Area 21A - McKenzie Bench	627	1,350	550	800	2.00
2024	Spec. Area 22B - Vista Rd	37	80	32	48	2.00
2024	Spec. Area 22C - Hein Rd	124	266	109	157	2.00
2024	Spec. Area 22D - Elwyn Rd	69	149	61	88	2.00
2024	Spec. Area 22E - Dease Rd	45	96	39	57	2.00
2024	Spec. Area 22F - Mills Rd	159	342	140	202	2.00
2024	Spec. Area 29 - Campion Cambro	406	874	356	518	2.00
2024	Spec. Area 30 - Acland	169	364	148	216	2.00
2025	Spec. Area 20 - North Rutland	3,365	6,822	2,993	3,829	1.80
2025	Spec. Area 28A - Okaview	315	638	280	358	1.80
2028	Spec Area 26 - Fisher Rd	1,303	2,021	1,206	815	5.15
2028	Spec Area 34 - Country Rhodes	280	435	260	175	5.15
2028	Spec Area 36 - Clifton	172	267	159	108	5.15
	Sewer Improvement Programs					
2019	Byrns Baron Main	693	3,866	355	3,511	2.00
	Sewage Treatment Plant					
2019	Waste Water Treatment Expansion	4,651	20,000	2,371	17,629	4.90
2019	Waste Water Treatment Expansion	2,325	10,000	1,186	8,814	4.13
2020	Waste Water Treatment Expansion	3,421	10,000	2,325	7,675	3.73
2031	Brandt's Creek Tradewaste Treatment	2,541	3,800	2,301	1,499	3.25
<u>Total Debt - Wastewater Fund</u>		<u>\$ 20,732</u>	<u>\$ 61,622</u>	<u>\$ 14,882</u>	<u>\$ 46,740</u>	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2018
(in thousands of dollars)

Long term debt - Water Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2017</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2018</u>	<u>Sinking Fund Balance December 31, 2018</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2023	Spec Area 16 - Byrns	\$ 16	\$ 39	\$ 14	\$ 25	2.40
2024	Spec Area 18 - Lakeshore	11	24	9	15	2.00
2028	Spec Area 26 - Fisher Rd	192	297	177	120	5.15
2038	Local Area Service - Aspen Rd	-	48	48	-	3.20
	Water Improvement Programs					
2028	Cedar Creek Pump Station	4,884	7,577	4,522	3,055	5.15
2031	Poplar Point Pump Station Upgrade	1,555	2,000	1,470	530	3.25
<u>Total Debt - Water Fund</u>		<u>\$ 6,658</u>	<u>\$ 9,985</u>	<u>\$ 6,240</u>	<u>\$ 3,745</u>	

Long term debt - Airport Fund

Debenture Debt

2018	Airport Expansion	\$ 1,897	\$ 16,000	\$ -	\$ 16,000	4.65
2025	Airport Expansion	6,199	7,500	5,514	1,986	2.75
2026	Airport Expansion	3,202	3,500	2,893	607	2.60
2026	Airport Expansion	2,738	3,000	2,469	531	2.10
2027	Airport Expansion	8,000	8,000	7,302	698	2.80
<u>Total Debt - Airport Fund</u>		<u>\$ 22,036</u>	<u>\$ 38,000</u>	<u>\$ 18,178</u>	<u>\$ 19,822</u>	

Long term debt - Natural Gas Legacy Fund

Debenture Debt

2018	Leased Capital Assets	\$ 2,737	\$ 29,800	\$ -	\$ 27,063	6.01
2018	Leased Capital Assets	1,791	19,500	-	17,709	1.15
		<u>\$ 4,528</u>	<u>\$ 49,300</u>	<u>\$ -</u>	<u>\$ 44,772</u>	

Capital Lease Payable **\$ 2,171** **\$ 2,500** **\$ -** 10.072

Total Debt - Natural Gas Legacy Fund

\$ 6,699 **\$ 51,800** **\$ -**

Long term debt - Other

2018	General - CN Rail	\$ 3,000	\$ 3,000	\$ -		nil
2019	Water - KLO Road for SEKID	-	177	177		nil
2020	General Land-Diamond Mountain	-	6,900	6,900		nil
2020	Wastewater - Commonage	329	439	219		nil
2021	Airport - 3770 Bulman road	3,600	4,500	2,700		
<u>Total Debt - Other</u>		<u>\$ 6,929</u>	<u>\$ 15,016</u>	<u>\$ 9,996</u>		

Total City Long Term Debt

\$ 137,434 **\$ 283,922** **\$ 119,340**



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