



WE ARE KELOWNA



2012 Annual Report

For the year ended December 31, 2012

Kelowna, British Columbia, Canada



Community Awards & Accolades

- Transportation Association of Canada 2012 National Sustainable Urban Transportation Award for the Active Transportation Network component of the 20-year Servicing Plan and Financing Strategy that supports the 2030 OCP and forms part of the Development Cost Charge Bylaw
- 2012 Canadian Society for Civil Engineers Award for Governmental Leadership in Sustainable Infrastructure
- International Association of Business Communicators (IABC) Gold Quill Award and “best of the best” for Communications Audit
- Heritage Canada Foundation National Achievement Award received for the Laurel Packinghouse restoration project
- FortisBC PowerSense Conservation Excellence Award for Waste Water Treatment Facility expansion and upgrades

Produced by the Communications and Financial Services Departments of the City of Kelowna in cooperation with all civic departments and agencies.



LEADING THE DEVELOPMENT OF A

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SAFE, VIBRANT & SUSTAINABLE CITY

MESSAGE FROM KELOWNA MAYOR WALTER GRAY



I always look forward to this chance to reflect on the state of our city. This year's annual report theme perfectly captures the pride we feel for Kelowna and our accomplishments in 2012. This report is an opportunity to celebrate the contributions made by our citizens, Council and visitors toward improving our city in so many ways.

As a municipality, we deliver several hundred services and we need to make sure they're efficient and effective.

We invest in infrastructure that adds to our quality of life and attracts new businesses. We are an active city, featuring the most extensive network of bike paths per capita in Canada and H₂O Adventure + Fitness Centre, the largest municipal indoor water park in Canada. We are accessible, welcoming 1.4 million passengers a year at Kelowna International Airport, which has direct access to 60 worldwide destinations every day.

This year, as part of the overall move to stimulate and grow the city's economy, we created an Executive Director of Business Development at City Hall, provided grants to groups that enhance our community and developed rules and processes that help the community grow and keep it orderly.

The priorities we set for ourselves on Council match this year's achievements and commitment to:

Grow our economy, by conducting more than 110 competitive bidding processes and awarding more than \$51 million in goods and services to private businesses.

Focus on results, when we decided to add 12 new RCMP staff based on recommendations in a needs analysis of appropriate police staffing levels for a city our size. Community safety is among the top priorities our citizens tell us they want. With adequate resources, we are moving to proactive policing and targeting prolific repeat offenders.

We increased housing availability with a more streamlined approval process for secondary suites in single-family

dwellings and an updated housing strategy that gave incentives for purpose-built rental units.

We introduced bus service to Mission Recreation Park and Quail Ridge, along with late-night buses on the 97 express route Friday and Saturday. We acted decisively to approve design and construction of the McKinley road safety improvements along the Glenmore reservoir.

Deliver on our plan, by placing greater emphasis on relationship building, partnerships and encouraging creativity and innovation to accomplish our objectives. We completed five park development partnerships including a joint venture to construct walking trails at the base of Black Mountain Drive near Lund Park.

Move opportunities forward, with \$100 million in public investments downtown since 1995, the parks and cultural district facilities we've built have attracted new residents and investors. The new downtown plan anticipates that in less than 20 years the area will have nearly 5,000 more people living there than today.

Kelowna boasts the amenities of a major city and is truly a great place to live. The efforts of our community and our staff in 2012 laid the foundation for continued growth and a vibrant future. We are Kelowna!

A handwritten signature in black ink that reads "Walter Gray". The signature is fluid and cursive, with a long, sweeping tail on the letter "y".

Walter Gray
Mayor, City of Kelowna

MESSAGE FROM CITY MANAGER RON MATTIUSSI

The City of Kelowna is proud to be part of the wider Okanagan community. Local business and government agencies in the city recognize the value strong partnerships bring to Kelowna, helping us and the entire region achieve success.

Council has set our priorities to grow the economy, enhance the quality of life for residents, focus on results, deliver on city plans and provide proactive and pragmatic leadership.

To further these goals in 2012 we've expanded transit services, increased water treatment capacity, upgraded sports and recreation facilities, improved roads and added multi-use pathways, and provided more than \$1.82 million to support cultural organizations.

The number of building permits issued over the last decade in Kelowna puts us at the top of the list of municipalities our size and in the ballpark of larger cities with strong development growth. Investment at the Okanagan campus of the University of British Columbia, Okanagan College, Kelowna International Airport and in health services at Kelowna General Hospital has solidified Kelowna as the commercial and institutional centre of the B.C. Interior and will contribute to our growth in the years ahead.

Looking ahead, we've probably experienced the last prolonged building boom we're likely to see for a while. With the baby boomers retiring sensitivity to tax increases becomes more acute and every level of government is facing a prolonged period of financial restraint. It's time for governments to work toward a change in the way we conduct business.

At the City, we're in the midst of changing the corporate culture, with the goal of being a high-performing, customer-focused organization. Part of that process is an aggressive assessment of the services we provide, our business processes, our fees and charges, the way we consult with the community and our customer service initiatives.



Kelowna really is a dynamic city. We have development growth, even in slower times. We have natural beauty that attracts new residents. We have investment from private businesses and governments.

The City's role in all of this is to make those strategic investments, provide businesses with the information and resources they need to get on with their plans, and make the experience of living and visiting here as positive as it can be.

Most importantly, we have a strengthening sense of community. An Ipsos Research cross-Canada poll in 2012 found that 96 per cent of citizens rated their quality of life in Kelowna as good to very good. Citizens also said that rather than lower taxes, they want new services and facilities and our approach is to continue to invest in amenities and services that enhance the experience of living and visiting here.

Because to create the kind of city that people want to continue moving to and investing in, we need to build a great community. One that's clean, efficient, welcoming and sustainable. Our community has heart and soul and our citizens are proud to be from Kelowna and even prouder to show it to the world. Together, we are Kelowna.

Ron Mattiussi
City Manager

119,000 **POPULATION**

428 KM **BIKE LANES**

559 **HOUSING STARTS**

1,055 **HECTARES OF PARKLAND**

9,144 **BUSINESS LICENSES**

1.44 M **AIRPORT PASSENGERS**

1.5 M **TOURISTS**

4.97 M **TRANSIT RIDERS**

\$39 M **PROTECTIVE SERVICES**

\$287 M **BUILDING PERMITS**

\$960,000 **NON-PROFIT TAX EXEMPTIONS**

508 **DEVELOPMENT APPLICATIONS**

\$340,000 **PROFESSIONAL ARTS GRANTS**

45,000 **HOURS OF RECREATION PROGRAMMING**

1,412 **BIKE TO WORK WEEK PARTICIPANTS**

7,000 **GRAFFITI REMOVALS**

**WE ARE
KELOWNA**

WE ARE MOVING FORWARD

Vision: To be the best mid-sized city in North America

Strategic Plan

GROW OUR ECONOMY

Council will act as a catalyst for sustained, quality employment opportunities and prosperity by actively pursuing partnerships, strategic investment in municipal services and infrastructure, and re-investment in existing assets.

Council's priority is to:

Work proactively with landowners and investors to encourage attractive waterfront and downtown development: public pier, downtown hotel, Bernard Avenue revitalization

Expand Kelowna International Airport

Develop a plan for Cedar Avenue and revitalize the Rutland Town Centre

Collaborate with key stakeholders to secure agreements for a new tourism centre and technology centre

Support policies and incentives to encourage economic development

ENHANCE CITIZENS' QUALITY OF LIFE

Council will enhance citizens' quality of life by leveraging strong financial decisions to support social, cultural and environmental initiatives.

Council's priority is to:

- Enhance the sense of safety in the community
- Develop a new park strategy
- Encourage diversity of housing options
- Increase mobility opportunities
- Engage the community
- Respect the natural environment
- Work with stakeholders to create a one-stop shop for services to support those in need in the downtown core

FOCUS ON RESULTS

Council will ensure Kelowna progresses towards its community goals through innovation.

Council's priority is to:

- Collaborate with applicants, investors and the community, working together towards solutions
- Apply new approaches in service delivery, financing and facility investment
- Leverage investment through strategic community, public and private sector partnerships

DELIVER ON OUR PLAN

Council will work with citizens, partners and applicants to move opportunities forward that create value for the community.

Council's priority is to:

- Align current plans and policies and focus on consistent implementation

PROACTIVE & PRAGMATIC LEADERSHIP

Council will focus on providing pragmatic leadership to achieve key outcomes.

Council's priority is to:

- Focus on the big picture
- Employ fair-but-firm decision making

WE ARE ACCOUNTABLE

TAKING ACTION IN 2013

- Aid in the growth and progress of Kelowna as a desirable place to do business
- Aid in the growth and progress of Kelowna as a desirable place to visit, shop and tour
- Increase the diversity of employment opportunities

At the City of Kelowna, we are sharpening our focus to deliver on our plans. Initiatives that grow our community's tax base and help businesses thrive are fundamental to the health of the economy and the success of all other initiatives.

DOWNTOWN PLAN

We completed the Downtown Plan and long range population projections for downtown to provide a vision for future needs.

The plan sets out a strategy to attract people downtown, enhance the safety in the area and attract private sector investment. It is anticipated that the downtown area will attract just over 4,800 new residents by 2030.

To attract new investment, the plan includes incentives such as, for certain areas, waiving between 75 and 100 per cent of municipal taxes to a maximum term of 10 years.

PUBLIC PIER AND MARINA

One of the 25 recommendations of the Downtown Plan was to construct a public pier.

We finalized agreements for the design, construction, operation and maintenance of a new public pier and marina by a private proponent.

The pier and marina contract was awarded to Westcorp Properties through a bidding opportunity which will invest \$5 million for a full-service marina, including day moorage, boat rentals, fueling station and a public viewing deck. The City contributed \$200,000 toward the project's design work.

BERNARD AVENUE REVITALIZATION

We completed Phase 1 of the \$14-million Bernard Avenue revitalization project. A full-time Business Liaison supported merchants during the construction period. The project, funded in part by a \$1.25 million investment from property owners, will rejuvenate downtown's main commercial street and replace aging utilities and roadway. Work on the two-year project will stop during peak retail seasons in the summer and winter. Construction completion is expected in 2014.

ELECTRICAL UTILITY

We received elector approval to proceed with the Electrical Utility Restructuring opportunity and sale of assets to FortisBC.

We supported the FortisBC proposal to the British Columbia Utilities Commission (BCUC) to install a District Energy System downtown, and to become one of the first customers of energy created from waste biomass. The BCUC approved a pipeline project to supply landfill gas to FortisBC.

INTERIOR HEALTH AUTHORITY

An agreement was negotiated for a new Interior Health headquarters on downtown land purchased from the city, which will result in 1,000 new workers in the downtown core. We received elector support to proceed with construction of a new parkade and expansion of an existing parkade to accommodate parking for Interior Health and expand public parking options downtown.

LOOKING FORWARD TO 2013-2014

- Implement the Downtown Plan
- Replace City Park washroom, concession and office capacity that was destroyed in Pavillion fire
- Expand Library parkade with additional stalls and commercial/retail space
- Construct the final phase of Stuart Park

WE ARE PUBLIC SERVICE

TAKING ACTION IN 2013

- Reduce traffic congestion on City streets and Highway 97
- Realize construction of housing forms and prices that meet the needs of Kelowna residents
- Achieve accessible, high quality living and working environment
- Provide infrastructure that keeps pace with population growth and evolving opportunities
- Sensitively integrate new development with heritage resources and existing urban, agricultural and rural areas
- Provide meaningful opportunities for a broad range of input from residents and agencies on major directions taken by the City

Kelowna's tax base supports services and amenities that contribute to an excellent quality of life. We maintain one of the lowest business and residential property tax rates in B.C. communities with populations of more than 75,000. We continued to partner in support of economic and tourism development and to prepare for future growth.

UTILITY IMPROVEMENTS

We completed the Kelowna Integrated Water Supply Plan and executed a Memorandum of Understanding with the city's four irrigation districts. This plan provides an integrated city-wide approach to domestic water of high quality to all residents of Kelowna and establishes a framework for funding applications to senior government assistance.

Installation of an oil/grit separator on the Mill Creek storm outfall at Enterprise Way near Hardy Street to capture and remove hydrocarbons, heavy metals and suspended solids from storm run-off was completed.

We completed construction of water, sewer, electrical and gas utility works to support the subdivision and development of Central Green, a new sustainable community located near downtown Kelowna. Marketing material was developed with all available parcels listed for disposition.

The Maude Roxby water well rehabilitation was completed.

INFRASTRUCTURE IMPROVEMENTS

Construction commenced on the first leg of John Hindle Drive and new landfill facility. The works include a new entrance to Glenmore landfill facility, new scales and buildings, wheel wash facility and a hazardous waste building at a cost of \$9.4 million.

We completed a \$2.48-million road resurfacing program, including 15 streets requiring 80,000-square-metres of asphalt. The program included utility upgrades with 114 manhole and 112 water box adjustments and various sanitary and drainage system repairs. A sidewalk inspection was completed with 95 per cent of Priority 1 repairs undertaken.

We responded to more than 1,800 roadway related service requests.

We reviewed and analyzed more than 100 locations for traffic calming requests, installed traffic calming solutions, including the Dodd Road traffic calming speed hump and launched the Springfield Road "Green Wave" speed reduction initiative. More than 600 stop sign posts were enhanced with highly reflective tape, partially funded by the Insurance Corporation of B.C. and installed pedestrian-controlled countdown timers at five high-volume intersections.

Design and construction of McKinley Road safety improvements along the Glenmore Reservoir were completed.

The second construction phase of Airport Way was completed. This \$1.1-million project involved a sewer main upgrade, road reconstruction with new street lighting and the extension of the multi-use pathway from Aerospace Drive to Airport Way.

A committee was formed with other utilities to reduce copper theft. A pilot program to install tamper-proof bolts on electrical infrastructure was established.

DEVELOPMENT ACTIVITY

The total value of building permits issued in 2012 exceeded \$287 million. The number of building permits processed was 1,866, a 2.8 per cent increase over 2011. Development applications processed decreased to 508 from 569 in 2011, including applications for 129 new subdivision applications resulting in 84 new lots.

We partnered with developers for Frost Road water main upsizing and Mountainside Park and Black Mountain Trail development.

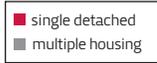
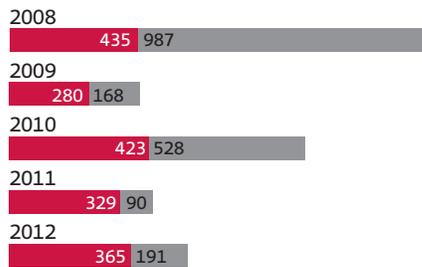
Property was purchased for the Glenmore Landfill expansion and the former Water Street Senior Centre building was scheduled for demolition to make way for Phase 2 of Stuart Park and the new Kelowna Yacht Club clubhouse.

Housing Strategy recommendations were advanced, including implementation of a streamlined process for secondary suites in single-family dwellings and amendment of the secondary suites bylaw.

A development permit was issued for the Interior Heart and Surgical Centre building.

Residential Development

building units



An Executive Director of Business Development was appointed to facilitate information sharing and strengthen relationships with local businesses, institutions and major organizations.

FACILITY IMPROVEMENTS

We completed a number of building upgrades, including the installation of acoustic paneling in the H₂O Adventure + Fitness Centre to reduce the ambient noise level. The cost of the project was \$230,000.

The Laurel Packinghouse also saw some further upgrades with installation of a new air conditioning system and the addition of an accessibility ramp.

At Memorial Arena, we installed a new transformer and primary electrical system.

GRAFFITI MANAGEMENT

We spent more than \$264,000 on graffiti eradication in 2012. Removing graffiti remains a priority, as staff responded to more than 7,000 service requests, a response rate increase of more than 82 per cent since 2010.

We aim to remove graffiti on City property within 24 hours of it being reported and support property owners affected by graffiti vandalism by providing free paint.

We covered more than 100 utility boxes with anti-graffiti wrap material.





**LOOKING
FORWARD TO
2013-2014**

- Ensure future developments follow the sustainable guidelines of the Official Community Plan
- Implement shoreline protection at Walnut Avenue, City Park and Poplar Point
- Construct new administration building at Glenmore Landfill to meet facility needs



Meeting Place
Salle de Réunion

Alarm Will Sound
L'alarme se déclenche

**WE ARE
ACCESSIBLE**

Powered by a talented and diverse team of employees, the City of Kelowna is pursuing operational excellence through innovative strategies that engage residents and inspire continuous improvement. We are fostering top performance within our city government to achieve responsive customer service that puts people first.

2012 CITIZENS SURVEY

The citizens survey is conducted every three years to gauge public satisfaction with municipal programs and services, and to gain insight into citizens' rankings of service priorities. Ninety-six per cent of residents rated their quality of life in Kelowna as "good" to "very good" while 81 per cent say they receive good value for their taxes.

YOUR LINK TO THE WORLD

Passenger numbers at Kelowna International Airport (YLW) established a record volume of 1,440,952 – 3.7 per cent above 2011 passenger total of 1,390,187.

New service to Los Angeles was launched in November, with seasonal Saturday service by WestJet and in December daily year-round service by YLW's newest air carrier, United Airlines was launched. Northwestern Air added non-stop service to Red Deer on Fridays and Sundays.

To improve the customer experience, luggage carts were made available free for passengers and valet vehicle parking service was introduced. For an additional \$15, passengers can leave their vehicle with the valet and have it waiting for them next to the airport terminal at the end of their trip.

The new international arrivals hall and customs facility was completed and is able to process 250 passengers per hour. A second White Spot restaurant was opened in the airport terminal.

Two open houses to promote Kelowna International Airport's winter and summer travel markets were held, attracting approximately 1,000 participants to each event.

Airport Advisory Committee membership was expanded to include the communities of Summerland, Penticton, Oliver, Osoyoos and Okanagan Falls to better represent the airport's catchment area.

Airport Passengers

2008	1,389,883
2009	1,367,631
2010	1,391,725
2011	1,390,187
2012	1,440,952



GETTING CONNECTED

We engage every day with our community and residents and are always looking for processes and technology to improve that access.

In addition to traditional communications channels, we invest in keeping the conversation going online and through social media. In 2012 there were more than 11,000 e-Subscribers for City of Kelowna email news updates (nearly tripling since December 2011), close to 6,000 Twitter followers and more than 800 Facebook connections. Kelowna International Airport interacted with more than 4,200 Twitter followers and 3,700 Facebook connections.

New websites for specific programs were launched to be more comprehensive information portals, including the Emergency Operations Centre, smartTRIPS, an updated Kelowna Community Theatre website, online billing for utilities and creation of a new open data website.

An express line was introduced in City Hall to improve permit process times for plumbing, natural gas, building demolition, above-ground swimming pools, accessory structures and minor fire restorations.

A new seven kilometre fibre optic backbone cable was installed between City Hall and the Enterprise Fire Hall to improve connection speeds for the Emergency Operation Centre, and provide future high-speed connections to City facilities, such as Yards, Landfill, and the proposed Public Safety Building.

Numerous workshops were hosted to invite public input, including Housing Workshop, Heritage Asset Management Strategy Workshop and Building Height Workshop.

The 13th Youth Forum invited students from Grades 8-12 to share thoughts, concerns and ideas about outdoor events.

Residents are turning to the Internet to contact the city with service requests. In 2012 we received more than 22,000 requests for service. Twelve per cent of those requests came from our website. We also deployed a mobile service request system, compatible with smartphones and smart devices, including iPhones, Androids, Blackberries, tablets and iPads.





**WE ARE
CULTURE**



Kelowna's culture is a unique blend of urban sophistication, stunning natural landscape and rich agricultural history. As a municipal government, we take a leadership role in facilitating and promoting culture. From the vibrant cultural district to spirited concerts and festivals, Kelowna's creative sector creates more than 1,700 jobs with an annual economic impact of more than \$140 million.

PUBLIC ART

The Father Pandosy Mission 150th Anniversary commemorative sculpture was unveiled in May. Located in the heart of the Father Pandosy Mission heritage site, this artwork was a collaboration by artist Crystal Przybille, the Okanagan Historical Society, the Roman Catholic Bishop of Nelson, and the City of Kelowna. Consultation with Westbank First Nation helped shape the final form of the sculpture. The artwork has been donated to the City of Kelowna which is proud to include it in the City's public art collection.

We revamped the Public Art Program and initiated art projects for the Bernard Avenue Revitalization and the Ellis Street Parkade.

COMMUNITY THEATRE

The Kelowna Community Theatre marked its 50th season with a special performance showcase and promotions. A media launch in June kicked off the celebrations with a backstage tour during stage preparations for Beatlemania.

With support from Canadian Heritage a \$260,000 upgrade to the theatre's acoustic and amplified sound system was completed over two years.

In 2012, the Theatre held performances on 227 nights attracting 101,000 people.

ARTS, CULTURAL & HERITAGE GRANTS

We distributed \$110,000 in Arts, Culture and Heritage grants to 18 organizations providing heritage, music, theatre, visual arts, youth and multicultural services and programs.

We distributed \$70,000 in Project Grants to 17 organizations, including nine new applicants.

We distributed \$340,000 Professional Arts Grants to four groups, including Festivals Kelowna.

Cultural facility operators, including the Rotary Centre for the Arts, the Kelowna Art Gallery and Kelowna Museums, received financial support from the City of Kelowna of approximately \$1.3 million.

The Rotary Centre for the Arts completed negotiations and received Council approval for a new 10-year lease and operating agreement.

FESTIVALS

Over 90,000 people attended Canada Day and Parks Alive! events, including over 3,000 at the inaugural New York New Year's event in Stuart Park.





WE ARE ACTIVE

TAKING ACTION IN 2013

- Promote health and wellness initiatives
- Ensure the availability of fiscal and human resources to provide quality City services
- Provide meaningful opportunities for a broad range of input from residents and agencies on major directions taken by the City

With a corporate focus on creating more engaged communities, we are making participation in City programs easier. Three aquatic centers, four arenas and dedicated sport and recreation parks provide sport rental space and deliver a broad spectrum of multi-age recreation and cultural programming for individuals of all abilities.

RECREATION

We planned 4,500 registered programs, equating to 45,000 hours of multi-age programming for individuals of all abilities at 14 schools, nine City facilities, 26 sport fields/courts and 43 parks including 30 Family Active Nights and three licensed Out of School Programs.

Local sport organizations received \$27,450 in Sport Event Development Grants to host 15 events, contributing approximately \$4.4 million to the local economy. Athletic Excellence Grants supported 34 grant applications in the amount of \$12,100.

Recreation & Cultural Program Registrants

2008	25,248
2009	23,045
2010	23,761
2011	24,275
2012	23,873

Source: City of Kelowna, Recreation & Cultural Services
(Does not include registration from the Kelowna Family Y and the H₂O Adventure & Fitness Centre)

PARKINSON ACTIVITY CENTRE

The Parkinson Activity Centre opened with a ribbon-cutting celebration in November. The multi-use facility is a two-storey building with 10,000 square feet of space.

Next door at the Parkinson Recreation Centre, we added a new pool lift for persons with a disability, thanks to an \$8,000 donation by the Rotary Club.

H₂O ADVENTURE + FITNESS CENTRE

The H₂O hosted the Canadian Masters National Swim Meet, the largest swim meet ever held in Kelowna, where two world records were set. The meet had more than 500 participants and was supported by a City's Sports Event Development Grant.

Negotiations for a renewed management and operating agreement with the YMCA of the Okanagan were completed.

AMENITY IMPROVEMENTS

Roofing and structural repairs were completed at the Badminton Club.

Aging playgrounds were replaced at Moraine, Fairhall and Edith Gay parks. Development of Gopher Creek Linear Park trail, pedestrian bridge and underpass lighting was completed, as well as environmental restoration and Apex Trail upgrades in Knox Mountain Park.

Minor improvements, including leveling, reseeding and drainage improvements were completed at Mission small dog park.

The Walnut Avenue park retaining wall repair was completed.

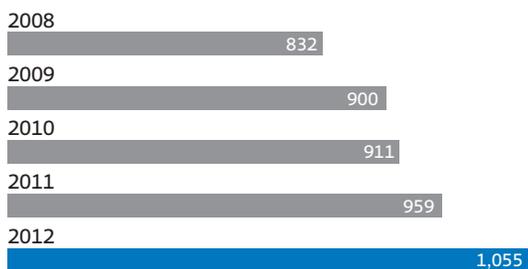
The City Park concession/washroom plaza design and construction was completed to replace the facility lost in the City Park pavilion fire. A location analysis was completed and public engagement process initiated for the Tourism Kelowna Visitor Information Centre in City Park.



Over 100 outdoor event applications and park bookings were processed this year.

Municipal Parkland

hectares



Source: City of Kelowna, Infrastructure Planning

PARKLAND ACQUISITION

We assumed maintenance of 79 hectares of properties, 3.7 kilometres of new trails, 10.5 kilometres of new multi-use corridors, and 1,100 metres of new medians. Properties were purchased for Mill Creek and Bellevue Creek Linear Park corridors as well as for Glenmore Recreation Park and Ballou Park Active Parks Network.

Gas Tax funding of \$1.4 million was secured for Rails with Trails from Spall to Dilworth Road.

OUTDOOR EVENTS

Over 100 outdoor event applications and park bookings were processed, including charity fundraiser events, street festivals, marathons and the Parks Alive! free public concerts. These included the inaugural Keloha Music & Arts Festival in Waterfront Park; 64th Across the Lake Swim; 30th Pushor Mitchell Apple Triathlon; 16th annual BMO Okanagan International Marathon; Downtown Kelowna Block Party; Rutland September Days; Step Up Your Game 3x3 basketball tourney and the Scarecrow Festival.

The sixth annual Center of Gravity Festival had record attendance over the three-day weekend and sold out with 7,000 tickets.

We were proud to participate in the 25th Anniversary of Rick Hansen's Man in Motion World Tour that retraced the Canadian portion of Rick's tour. Rick Hansen himself joined some of the 45 medal bearers for an end-of-day celebration in our community.

A statistically valid survey showed 72 per cent of respondents supported the City of Kelowna submission to bid on being the new host of IRONMAN Canada and we were one of the three finalists selected by the World



Triathlon Corporation. The city remains committed to establishing Kelowna as a centre for multi-sport excellence, a leader in active living and home to a number of large-scale athletic events. We plan to follow through on a volunteer recruitment and retention strategy that will benefit other events in Kelowna.

We completed supply, installation and energizing high-mast sports lighting for the two newest softball diamonds at Mission Recreation Park. The Glenmore Sports field was reconfigured to accommodate more user groups by removing a section of shale area and putting in grass to create an additional sports field.



LOOKING FORWARD TO 2013-2014

- Implement the Cultural Plan
- Continue the upgrade and expansion of the City's waterfront parks
- Complete Family Y structural repairs
- Construct historical Cameron House structure repairs



WE ARE SUSTAINABLE

TAKING ACTION IN 2013

- Conserve Kelowna's water resources
- Preserve and promote the enhancement of air quality within Kelowna's air shed
- Manage human impacts on our natural environment, including Okanagan Lake and the surrounding hillsides

One of Kelowna's greatest assets is our environment. We are taking important steps to continue our environmental protection and educational outreach programs, including protecting natural areas and water quality.

COMMUNITY CLIMATE ACTION PLAN

Kelowna's Community Climate Action Plan was endorsed by City Council. It establishes actions to help reach the Official Community Plan goal of reducing community greenhouse gases 33 per cent below 2007 levels by 2020.

The extensive plan sets out strategies to reduce community greenhouse gas emissions in five key areas:

- The way we get around
- The energy we use
- The waste we create
- Community planning – including our own corporate plans to become carbon neutral
- Technology – adopting innovative technology

Strategies include the introduction of district energy, encouraging compact development and reducing the amount of vehicle kilometres travelled.

GREEN CITY OPERATIONS

We have reduced the City's carbon footprint, at the same time we've been working with the community to support residents as they make changes to reduce reliance on fossil fuels.

We are working with utility companies and major stakeholders to provide new programs, opportunities, infrastructure and incentives to help reach the 33 per cent reduction target.

We received \$1.26 million from Canada's Federal Gas Tax General Strategic Priorities Fund and Innovations Fund Grants to support our efforts to reduce greenhouse gas

emissions and create energy cost savings. These funds are being applied to a number of projects, including a geothermal heating system for Kelowna International Airport, a building optimization program for City Hall and H₂O Adventure + Fitness Centre and further enhancements to the existing systems at the wastewater treatment plant.

We also received an additional \$253,000 in funding from Canada's Gas Tax Fund to support creation of a long-term sustainable infrastructure plan prioritizing and evaluating performance of the City's capital investments over the next 20 years.

Corporate Greenhouse Gas Emissions

tonnes CO₂



Source: City of Kelowna, Infrastructure Planning

Includes corporate energy of civic buildings, vehicle fleet, street and park lighting and water, wastewater and solid waste operations. Corrections have been made for 2010 & 2011 due to changes in the collection of information.

ENVIRONMENTAL OUTREACH

Environmental protection is a pillar of the City's strategic plan and a strong priority for residents.

The Adopt-a-Stream and Yellow Fish Road programs saw 26 volunteer groups donate more than 279 hours to clean local streams in 2012. Seventy-three bags of garbage were collected and 92 yellow fish emblems were painted on storm drains, alerting residents to the environmental consequence of dumping toxic materials. Five new groups joined the Adopt-a-Stream program – bringing the total number of groups in Kelowna to 26.

The Pesticide-Free awareness campaign and retailer program continued and four Pesticide-Free gardening workshops were offered to 86 participating residents.

Individuals, businesses and groups were recognized for their sustainable approach through the Mayor's Environmental Achievement Awards. As of 2013 the awards will be incorporated as part of the Civic and Community Awards event.

ACTIVE TRANSPORTATION

We continued to invest in bike lanes, multi-use pathways and transit infrastructure that will improve commuting options, help to reduce greenhouse gas emissions and traffic congestion.

A Regional Active Transportation Master Plan was completed in partnership with other Central Okanagan local governments. The plan was submitted to the Union of BC Municipalities as a guide for distribution of regionally significant Gas Tax funding.

This year, we launched the smartTRIPS initiative that encouraged all Central Okanagan residents to be healthy and active by reducing drive-alone trips. A targeted pilot program in the Pandosy area ran from April to June. Over 10 weeks, participants tracking their trips recorded an average of more than 25 trips per person totaling more than 12,500 kilometres of active trips — approximately the distance from Kelowna to the southern tip of South America. Sixty-two per cent of participating households reported reduced car use and 50 per cent increased bike use.

A second smartTRIPS pilot was announced for 2013 in the Springvalley neighborhood.

The City hosted the eighth annual Bike to Work/School Week with a record 1,412 participants from 257 workplace teams, including 314 first-time participants. The community event encouraged everyone to try commuter cycling by providing resources and support for new and continuing cyclists. Participants combined to pedal more than 57,000 kilometres.

Including the Bike to School participants, more than 3,300 people cycled during that week. By using bikes rather than motor vehicles, 13 tonnes of carbon dioxide emissions were saved in just one week.

The Central Okanagan's participation rate continues to grow, placing third among the 20 participating B.C. communities, following the larger communities of Metro Vancouver and Victoria.

A trial for on-street bicycle parking was piloted at GioBean, a café on Water Street downtown where two vehicle stalls were replaced with 24 bicycle stalls.

The Safe Routes to School project, undertaken to promote active transportation and use of transit among students attending Glenmore Elementary School, completed a number of prominent upgrades at intersections in the vicinity to further promote safe, walkable routes to school. The upgraded intersections included: High Road and Kennedy Street, and High Road and Lowland Street, where enhanced raised cross-walks with textured surfaces were added and curb extensions and changes to the design of vehicle lanes resulted in the overall calming of traffic.



TRANSIT

Transit ridership reached 4.97 million, up from 4.76 million in 2011. New service to the Mission Recreation Park and Quail Ridge was introduced, along with late-night bus service on the 97 Express route Friday and Saturday.

The Mission Recreation Transit Exchange was opened. Conveniently located between the Capital News Centre and the H₂O Adventure + Fitness Centre, it functions as a transfer point for Mission community bus routes to connect with the high-frequency Lakeshore route, providing connections to all Kelowna Regional Transit routes.

Project infrastructure for the Mission Recreation Transit Exchange — including curbs, concrete pads, sidewalks and shelters — was substantially funded through a \$292,000 grant from Canada's Gas Tax Fund.

Design and tender of the Shepherd Road transit exchange in Rutland's urban centre was completed. Construction is underway for completion in 2013.

We also assisted BC Transit in preparing a three-year (2013-2015) expansion plan.

WASTE MANAGEMENT & RECYCLING

The Glenmore Landfill diverted 34.8 per cent of refuse destined for disposal for reuse, recycling or composting.

More than 32,455 metric tonnes of yard and wood waste were composted to create GlenGrow. Sales of GlenGrow compost reached \$101,000. Revenue from OgoGrow compost reached \$454,000.

Design of the new Glenmore Landfill administration building was completed using Industrial Ecology Principles and construction of the new entrance began. Regional compost facility staff improved site management, resulting in fewer odour complaints – six compared to 48 in 2011.

In Kelowna we saw 2,621 cubic metres of wood waste chipped rather than burned through the Regional District Agricultural Woodwaste Chipping Program and 23 woodstove exchanges to replace inefficient woodstoves with high-efficiency models, thereby avoiding the negative impact on air quality.

A partnership with FortisBC to sell landfill gas for scrubbing and distribution in the natural gas grid as a “green” fuel was approved by the British Columbia Utilities Commission.





WATER AND WASTEWATER

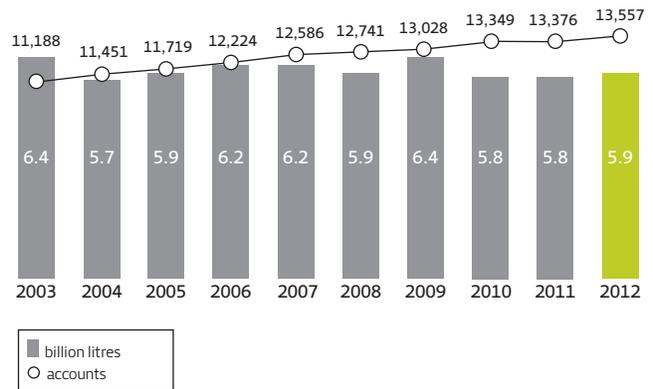
The recently upgraded Wastewater Treatment Facility won the FortisBC Conservation Award for a 534,000 kwh reduction between 2011 and 2012. With this project, the facility nearly doubled its capacity to treat water while accommodating the City’s sewer servicing needs beyond 2030. As part of the expansion, new equipment was installed to increase the facility’s energy efficiency and reduce the use of potable water. Innovative technologies include ultraviolet light disinfection of effluent and a state-of-the-art odour control system. The new maintenance building was built to LEED Gold Standards and included ways to reduce energy and GHG emissions, conserve water and create a healthy work environment.

PAPERLESS SERVICES

A new version of the Activity and Program Guide was launched, moving from an area-wide home delivery of the guide to marketing an online version. Greater online access and registration allowed the reduction in print copies from 40,000 to 20,000.

Utilities billing services have also moved online, encouraging customers to go paperless. More than 1,300 customers registered for the eCare utility billing program in 2012.

Residential Water Consumption





LOOKING FORWARD TO 2013-2014

- Implement the Community Climate Action Plan
- Continue water conservation and energy management initiatives
- Integration of water supply and treatment across the city
- Second pilot of the smartTRIPS neighbourhood program to increase biking, walking, transit ridership and carpooling to reduce drive alone trips



**WE ARE
PREPARED**

We are proud of how our firefighters, RCMP and other agencies work as a team for community safety by using their highly developed skills and abilities to provide critical, life saving services.

NATURAL FORCES MITIGATION

Prior to the spring run-off season we were proactive in removing potential blockages such as beaver dams and debris blockages and completed the flood control structure on Mill Creek.

We completed construction of a 150-metre section of dike along Mission Creek. This portion of dike was identified as at risk for flooding. The dike costs were covered under the Provincial Emergency Program. Woody debris accumulations on beaches from the spring run-off were very heavy. By late June, 158 tonnes of wood were removed from public beaches by Park Services and taken to the landfill for composting.

The Province of British Columbia provided \$162,500 to remove more than 1,000 dead or damaged trees caused by the mountain pine beetle.

Hot Sands Beach and the promenade in City Park continued to be threatened by erosion. Repairs were made to a temporary retaining wall along the beach that was being undermined by wave action.

A gravel trap was constructed at Priest Creek to capture and minimize downstream sediment transported along the creek. Together with high levels of runoff, the sediments were responsible for clogging culverts and stream channels which caused the creek to flood its banks and resulted in damage to properties adjacent to the stream. The basins were constructed just prior to the spring freshet and have proven invaluable in reducing flooding incidents.

Operations staff cleaned the basin three times, excavating about 1,500 cubic metres of sand and gravel from the basin.

EMERGENCY OPERATIONS

A new Regional Emergency Operations Centre website was launched — www.cordemergency.ca — which provides residents and visitors of the Central Okanagan with information about emergency preparedness, emergency status updates and contact details.

More than 1,160 people have subscribed to receive updates direct to their email inboxes.

This year was the wettest June on record in Kelowna and the Emergency Operations Centre was activated to support the response to flooding and, later in the season, wildfires.

The Emergency Operations Centre coordinated funding for more than \$250,000 in emergency works and was activated to support major incidents across the region, including the evacuation of 1,500 residents who were threatened by the Trepanier Wildfire.

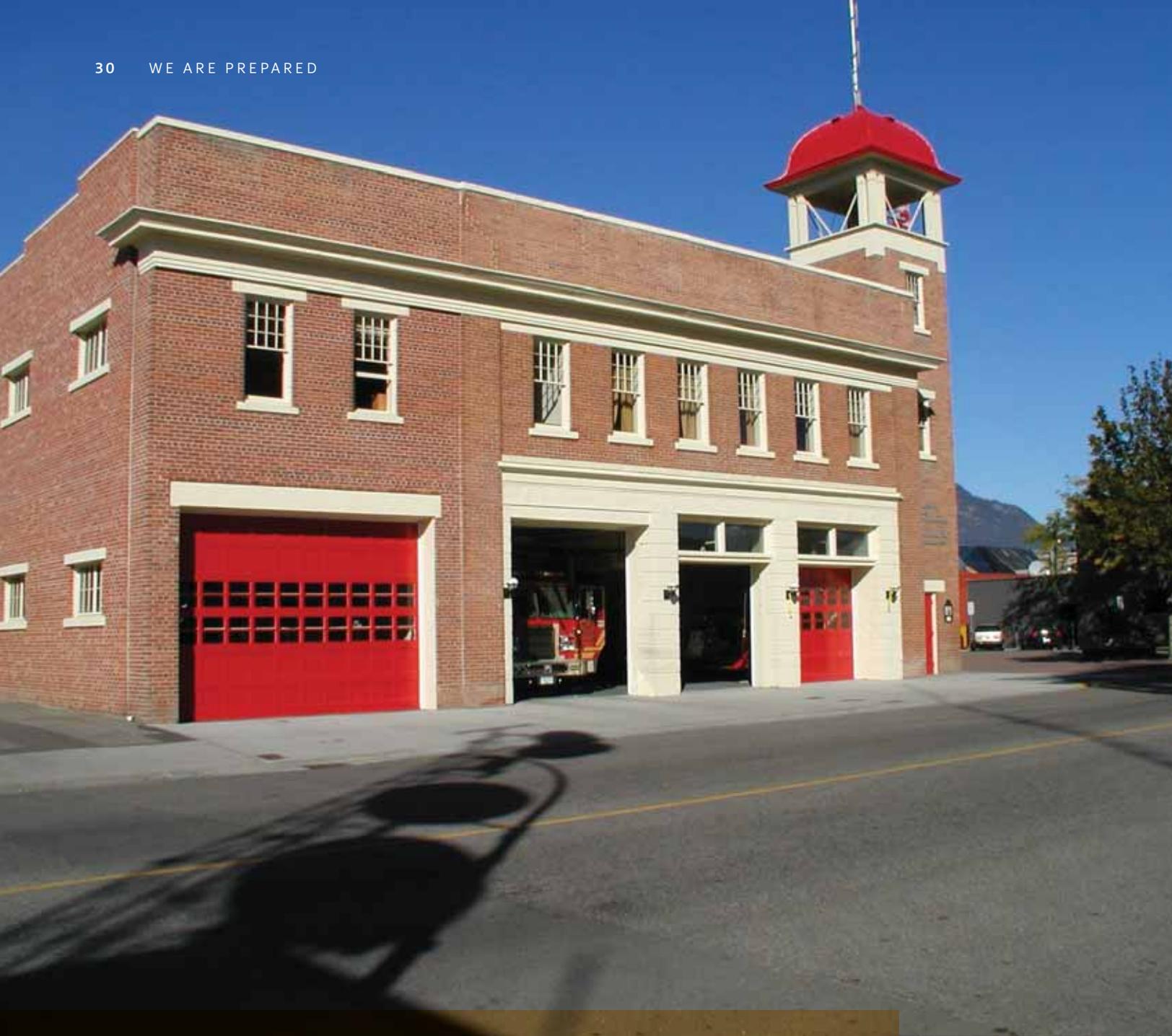
CRISIS EXERCISES

Emergency response exercises tested the region's response capability in the event of an aviation disaster.

A tabletop emergency exercise took place in May. More than 100 participants from 40-plus agencies met at the Okanagan campus of the University of British Columbia in response to a simulated major aircraft accident.

A full-scale Operation Unity Emergency Response Exercise was hosted by the Kelowna International Airport and Kelowna Fire Department in September.

With more than 41 agencies involved and more than 300 participants, this was the largest emergency preparedness exercise ever organized in our region and one of the largest in the province, rivaled only by exercises that led up to the 2010 Winter Olympic Games in Vancouver.



PROTECTIVE SERVICES

The RCMP experienced an increase in calls for service, 71,482 in 2012 up from 64,000 in 2011. There was an overall reduction in reported crimes compared to 2011 and Statistics Canada reported a 14 per cent annual reduction in serious crimes in Kelowna compared to 2011. The majority of the increase for calls for service came from approximately 4,800 calls related to misdialled 911 calls (3,200) and traffic ticket disputes (1,600).

The Kelowna RCMP detachment operated with 152 full-time members. We added 12 new RCMP staff in the 2012 budget in support of a consultant's recommendations

and developed a Crime Reduction Strategy to track annual progress. The officers were added to the regular member compliment as of January 1, 2013.

We collaborated with the RCMP on preparation of the Crime Reduction Strategy and a funding plan to achieve the increased police officers required.

We deployed a video surveillance system that enhanced community and corporate security and safety, while respecting privacy rights of the public and staff.

FIRE DEPARTMENT

In 2012, we faced a number of large scale emergencies including structure fires at Burtch Plaza, Coast Capri Hotel and The Highlands Retirement Residence. In total, property damage due to fire was estimated at \$5.8 million in property value, and an estimated \$220 million in property value was saved as a result of fire fighting efforts.

Operating from seven fire stations, the department responded to 10,075 incidents including 1,666 fires, 789 motor vehicle accidents and 6,420 first medical response calls. This is up 6 per cent from 9,518 calls in 2011. The fire dispatch centre processed 32,113 incidents, answering the average 911 call in less than six seconds. On average, fire crews were dispatched in less than 28 seconds.

Fire prevention remained a key part of our year-round outreach, with the department completing more than 5,000 building fire inspections which included inspection of over 50,884 fire and life safety systems within those buildings. In addition, enhanced public education efforts have reduced fire inspection deficiency rates by 10 per cent over 2011.

The department operated with 122 career members (96 firefighters) as well as 51 paid on-call members. The Fire Safety House Program educated 6,434 children from 35 schools about fire prevention and how to react in the event of a fire.

The first MobileCAD computers were installed in mid-March. This computer software links fire apparatus in the field electronically with the dispatch centre, providing mapping, incident details and property information. The truck location is tracked via GPS and the status of the truck is updated using touch-screen buttons. The balance of front line fire apparatus will be equipped with MobileCAD in 2013.

Fire Incidents



Source: City of Kelowna Fire Department

COMMUNITY SAFETY

City of Kelowna Bylaw Services saw an 18 per cent decrease in calls for service from 9,100 in 2011, to 7,499 in 2012.

This decrease is due to the creation of a Parking Management Department where time zone traffic enforcement calls were re-directed from Bylaw Services.

The most common Bylaw compliance files for 2012 were noise complaints, zoning (secondary suites), parking enforcement and violations under the Parks Bylaw.

Fleet Management Systems were installed in 75 City vehicles. These systems monitor maintenance, driver usage, engine data, vehicle location and routing information. The application will reduce fuel and operating costs, greenhouse gas emissions, maintenance and mileage while improving resource allocation. It also improves citizen and driver safety, productivity and customer service.

The airport added a new aircraft rescue and firefighting vehicle and two new snow chassis.

SOCIAL SERVICES

We provided a number of grants to support community needs, including a \$100,600 affordable rental housing grant for the creation of eight rental suites in a building planned for Leathead Road; \$49,300 in grants for community social development were provided to organizations such as Canadian Mental Health Association, Kelowna Gospel Mission and Project Literacy Kelowna Society and \$22,000 in grants to prevent the sexual exploitation of youth went to the Elizabeth Fry Society, New Opportunities for Women and the YMCA / YWCA of the Central Okanagan.

A photograph of an older man with grey hair, wearing a dark grey suit, a light blue shirt, and a dark blue tie with a white circular pattern. He is speaking and gesturing with his hands raised. He is holding a pair of black-rimmed glasses in his right hand. He has a gold ring with a blue stone on his right ring finger and a silver ring on his left ring finger. A small white pin is on his lapel. The background is blurred, showing a building with a blue and white facade. A red square is visible in the top right corner.

**WE ARE
LEADERS**

The City of Kelowna is proud to be part of the wider Okanagan community. Local businesses and government agencies in the city recognize the value strong partnerships bring to Kelowna, helping us and the entire region achieve success.

Kelowna is governed by an elected City Council comprised of a mayor and eight councillors. Together they provide leadership and direction to the City Manager and City Administration.

City Council 2012: (Back Row) Robert Hobson, Gail Given, Mayor Walter Gray, Colin Basran, Andre Blanleil
(Front Row) Luke Stack, Mohini Singh, Maxine DeHart, Gerry Zimmermann,

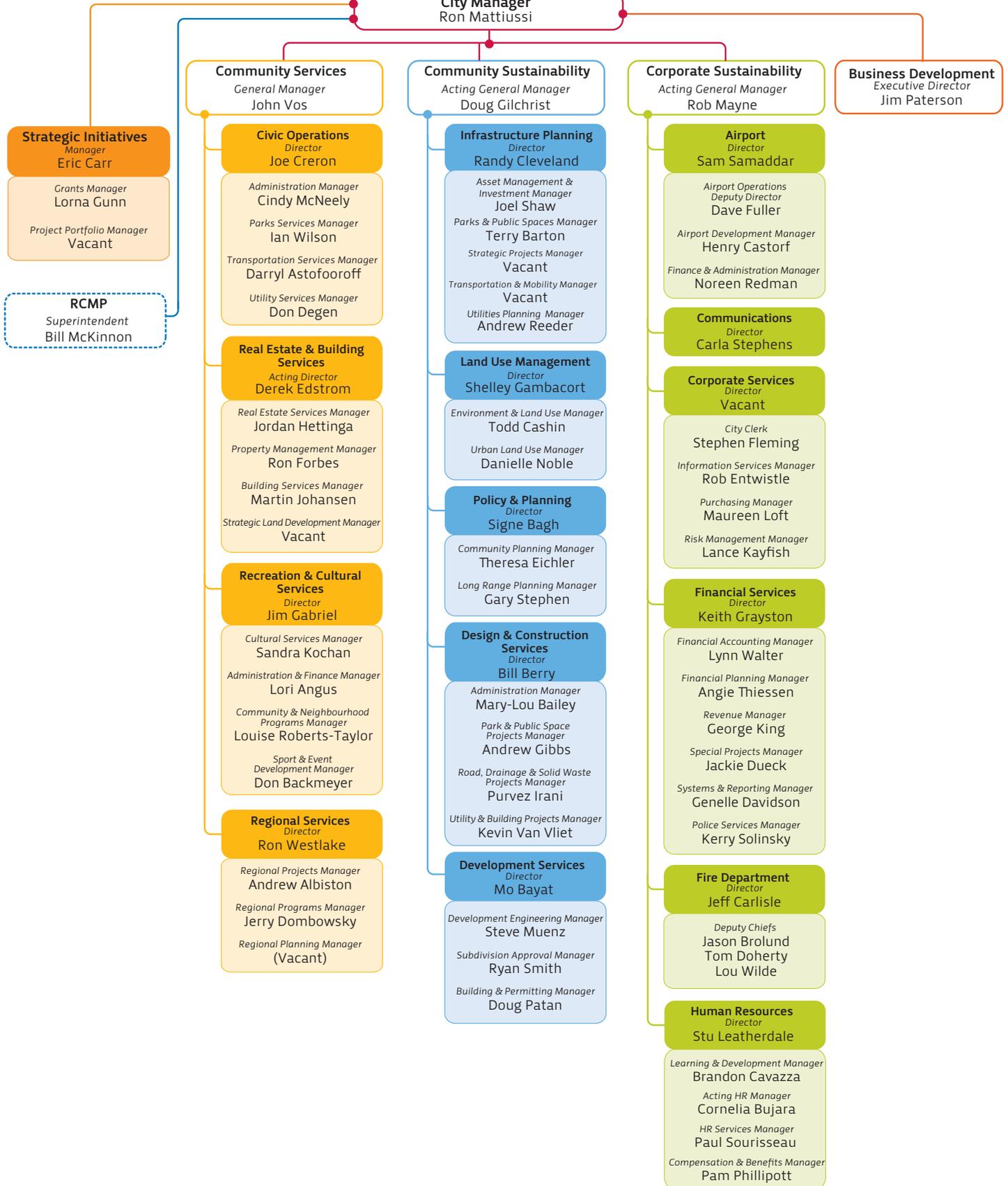


Citizens of Kelowna

City Council

City Manager
Ron Mattiussi

City Solicitor: Young Anderson
Auditors: Grant Thornton LLP, Kelowna, BC
Banker: Royal Bank of Canada



INTER-MUNICIPAL SERVICES

Kelowna, West Kelowna, Vernon and Penticton continued their work on common municipal issues including transit governance, the Okanagan Basin Water Board and environmental permitting.

Two joint letters were signed by Kelowna Mayor Walter Gray, Vernon Mayor Rob Sawatzky, West Kelowna Mayor Doug Findlater and Penticton Mayor Dan Ashton. One letter requested funding support from other levels of government for forest fire mitigation for private landowners. The second, addressed to all member municipalities of the Union of BC Municipalities, sought support for a change in the allocation of the Regional Significant Project funding under the Gas Tax Agreement to allow more opportunity to pursue projects that meet individual municipal needs.

CITY MANAGER

Appointed by City Council as Chief Administrative Officer, the City Manager implements City Council policies and manages day-to-day operations to ensure citizens have access to the services needed to sustain and enhance their quality of life.

Ron Mattiussi led the implementation of the Corporate Plan to build the corporate capacity necessary to deliver on City Council's directions and the goals of the community.

We are working to continually improve. We've reviewed our services and look to our staff for ways to improve service delivery through innovation and responsiveness. More than 600 City of Kelowna staff participated in a feedback survey and provided 1,500 ideas for improvement.

Early in the year, the new Corporate Plan was rolled-out to employees. The plan set out priority projects in six areas of focus:

- Performance excellence
- Passionate public service
- Responsive customer service
- Engaged communities
- Pioneering leadership
- Sustainable city

One of the first projects underway looks at improving efficiencies and cost-effectiveness throughout the organization. The rollout to staff also reinforced the City's internal core values: Balance, Excellence, Service and Teamwork.

COMMUNICATIONS

Our Communications department continued to provide support for marketing and public outreach. A two-year contract for an Agency of Record was awarded to local Pulse Group. As the primary Agency of Record, Pulse Group provides a full range of professional marketing services including strategic marketing, creative services and media planning, buying and tracking.

The department developed and implemented public outreach strategies for numerous City initiatives including the Downtown Plan, Climate Change Action Plan, Bernard Revitalization and the 2012 Budget.

Launched in 2010, the City's electronic subscription service (e-Subscribe) helped residents "get connected" with the City of Kelowna. The number of e-Subscribers in the system reached more than 11,000 in 2012. Citizens were also kept informed through the City's official website, kelowna.ca, which saw nearly 1.5 million visits, and local media reported on more than 310 news releases.

HUMAN RESOURCES

We reduced recruitment expenses by more than 40 per cent from 2011 while reducing the time to fill open positions by 10 per cent. In addition to reducing the total number of new employees hired through 2012, we reduced paid advertising by using less costly web-based recruitment methods and leveraging relationships with UBC Okanagan and Okanagan College. A new four-year collective agreement with the International Brotherhood of Electrical Workers signifies continuing positive labour relations and good value for taxpayers.

Through the Employee and Family Assistance Program (EFAP), we completed eight Stress Management workshops involving more than 200 employees. Performance Review Skills workshops were conducted with managers, and all management and exempt staff completed performance reviews to discuss performance over the past year and set specific performance goals for 2012.

We were pleased to be recognized by the United Way of the Central and South Okanagan / Similkameen with a Spirit Award which is presented to volunteers and organizations in the community who have put forth an exceptional effort during the annual campaign.

Service Recognition awards were increased by 20 per cent and we recognized 89 employees for long service and 10 retiring employees.

We continued to provide high quality Human Resources service with a lower HR staff-to-employee ratio than the BC Public Sector average.

**WE ARE
RESPONSIBLE**



The City is committed to sound fiscal management and the delivery of services at the lowest long term cost to the taxpayer. In 2012, this commitment to excellence was once again recognized by the Government Finance Officers Association. The City was awarded, for the eleventh year, the Distinguished Budget Presentation Award and for the tenth year, the Canadian Award for Financial Reporting.

Canadian Award for Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award for Financial Reporting to the City of Kelowna for its annual financial report for the fiscal year ended December 31, 2011. The Canadian Award for Financial Reporting program was established to encourage municipal governments throughout Canada to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

In order to be awarded a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report, whose contents conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments, and address user needs.

A Canadian Award for Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Canadian Award for Financial Reporting program requirements, and we are submitting it to the GFOA.



Government Finance Officers Association

Canadian Award for Financial Reporting

Presented to

**City of Kelowna
British Columbia**

For its Annual
Financial Report
for the Year Ended

December 31, 2011

Executive Director/CEO

Provision of Services & Support for Growth

The 2012 taxation increase averaged 1.1 per cent for all property classes, an increase to reflect the economic conditions both locally and globally but still support the current level of services delivered to the citizens of Kelowna. The utilization of tax revenue and development cost charges generated from new growth assist in providing a balanced approach to the expansion of services and infrastructure required to accommodate growth within the municipality.

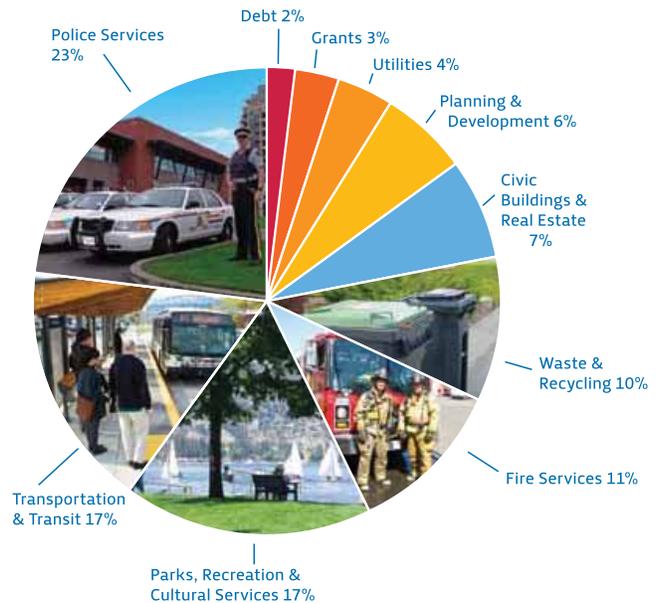
The City budgeted to collect a total of \$192 million in taxation revenues, 54 per cent of which was retained for municipal purposes. The remaining 46 per cent is levied by the provincial government to provide funding for schools, by the Regional District of Central Okanagan for shared services and by BC Assessment to cover the City's share of the costs associated with providing assessment information.

The City has historically relied on pay-as-you-go rather than debt financing for major infrastructure needs wherever possible in achieving strategic servicing goals. The decision to construct major community recreation facilities has necessitated a shift in this strategy for financing purposes to more appropriately assign associated debt repayment to those taxpayers who will benefit most over time. In 2012, 4.1 cents of each municipal tax dollar collected was budgeted for tax-supported debt servicing programs. Annual debt repayment costs are anticipated to increase above six cents over the next five years based on the 10-Year Capital Plan. Pay-as-you-go capital project funding represented 16 per cent of the 2012 taxation requirement.

City Reserves

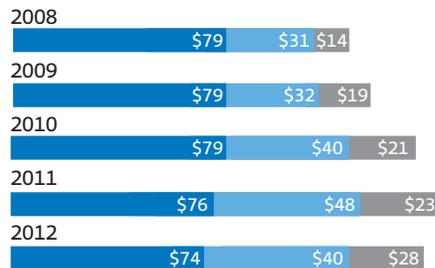
Maintenance of adequate levels of reserves and surplus continues to play a significant role in achieving a level of financial stability for Kelowna taxpayers and ratepayers. Reserves fall into two categories, the most significant of which is a capital reserve to ensure that existing City equipment and infrastructure can be maintained, and an operating reserve to ensure that unusual and unforeseen operating conditions can be met without the need for extraordinary tax increases.

Breakdown of Municipal Tax 2012



Consolidated Reserves & Surplus

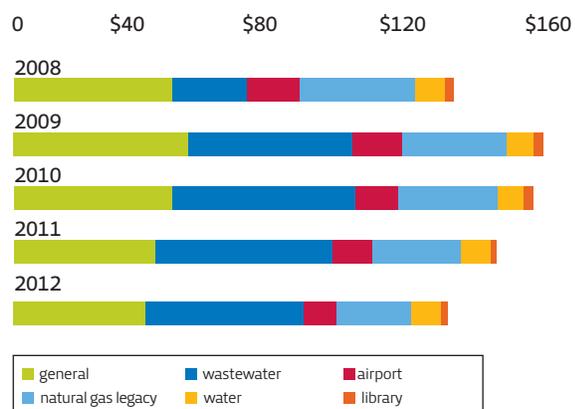
millions



■ reserve for future expenditures ■ statutory reserve ■ surplus

Long Term Debt

millions



Source: City of Kelowna, Financial Department

DEVELOPMENT COST CHARGES

Development cost charges (DCCs) are monies that are collected from land developers and builders by a municipality to offset some of the infrastructure expenditures to service the needs of growth-related development. Imposed by bylaw pursuant to the Local Government Act, the charges are intended to facilitate development by providing a method to finance capital projects related to roads, drainage, sewers, water and parkland.

The City's DCC program supports community development and integrates with longer-term plans. Infrastructure requirements are based on the Official Community Plan that estimates a resulting population of 161,701 by the end of 2030. The 20-Year Servicing Plan and Financing Strategy provides the infrastructure requirements to 2030 along with the cost sharing for various projects. Cost sharing methodologies reflect the level of benefit to existing taxpayers and new growth. Charges are based on the demand placed on services by different residential types, commercial, industrial and institutional growth.

The 2030 Official Community Plan was prepared and approved in 2011. The latest update to the Official Community Plan impacted DCC rates with the changes taking effect in June, 2011. With this new plan the total cost of the program is \$709 million. Approximately 56 per cent or \$400 million relates to the Arterial Roads program.

Local governments are permitted to temporarily lend available money from one DCC reserve fund to another. The money, along with appropriate interest, must be returned to the original reserve fund. For 2012, a deficit in Water Sector D reserve fund was covered from Water Sector A, a deficit in Sewer Sector A was covered from Sewer Sector B and a deficit in the Parks DCC reserve was covered by Roads Sector A.

Municipal Assist Factor

The Local Government Act requires local governments to assist in the cost of new infrastructure. The municipal assist factor reflects Council and the community's support

towards the financing costs of new infrastructure. The level of the assist, determined by City Council, reflects a benefit to the existing population while encouraging development and housing affordability.

City of Kelowna Assist Factor

Roads	15%
Parks	8%
Water and Wastewater	1%

Major Project Expenditures in 2012

Roads

\$4.7 million - Rutland Road property acquisition, Highway 33, along with debt repayment

Parks

\$6.2 million - Dehart Road Park, Casorso Road, Glenmore Recreation Park, Moubray Road

Water

\$0.3 million - Cedar Creek Pump station and Infrastructure Planning

Wastewater Treatment

\$6.2 million - debt repayment and Wastewater Treatment plant expansion

Wastewater Trunks

\$0.5 million - debt repayment

Future Plans

For 2013, DCC expenditures include \$2.5 million for Highway 33, \$1.6 million for Lakeshore Road, \$1.4 million for debt payments, \$0.7 million for South Mission Roads and \$0.4 million for John Hindle Drive. The Parks program includes \$0.9 million for potential parkland acquisitions and \$1.3 million for property debt payments. For the Wastewater Utility there is \$5.8 million for debt payments and \$0.7 million for Lakeshore Wastewater Trunk. The Water DCC program includes \$0.5 million for Royal View water main, \$3.1 million for the Cedar Creek pump station and \$1.1 million for the Stellar Booster Station.

Development Cost Charges Reserve Fund

thousands of dollars

	Opening Balance	Receipts	Interest	Transfers Out	Closing Balance	Reductions/Waivers*
Roads	\$ 13,354	\$ 2,366	\$ 340	\$ 2,727	\$ 13,333	\$ 37
Parks	3,375	1,201	13	6,197	(1,408)	42
Water	11,269	113	311	335	11,358	0
Wastewater	6,985	1,314	132	6,680	1,751	21
Drainage	3,446	0	92	1,940	1,598	0
	\$ 38,629	\$ 4,994	\$ 888	\$ 17,879	\$ 26,632	\$ 100

*Waivers are for affordable rental housing and are paid for through taxation.

Source: City of Kelowna Financial Services

FINANCIAL MANAGEMENT STRATEGIES

There are various strategies adopted by Council that guide the City of Kelowna in managing a vibrant and sustainable community. These strategies were updated in 2003 and are included in the City's ten-year plans.

Capital Pay-As-You-Go Strategy

Half of new construction taxation revenue each year is to be allocated to capital, increasing the percentage of capital to municipal taxation to a maximum of 30 per cent.

Civic Buildings Strategy

Buildings will be planned and constructed as required, subject to funding availability, with a focus on public-private partnerships in the development of these future civic buildings.

Debt Management Strategy

The existing strategy of using alternative funding for discretionary expenditures, capitalizing on debt reduction opportunities and using short term borrowing and agreements for sale has been maintained. Maximum debt servicing should not exceed five per cent of annual taxation demand.

Generation/Disposition of Surplus Strategy

One million dollars is to be allocated to reserves each year from annual surplus in order to mitigate the need for abnormal tax increases or incurring of new debt and to provide for capital expenditure opportunities which might otherwise require an alternative approval and/or referendum process.

Investment and Cash Strategy

The City will maintain sufficient short term liquid assets to enable it to meet its annual operating budget as required. Due to the uncertain nature of future expenses, the portfolio will focus on high quality, liquid securities.

Major Recreational Facilities Strategy

Major recreational/cultural facilities are budgeted with substantial emphasis on funding from private-public partnerships, public sector partnering and other contributions. Pay-as-you-go capital and reserve funding will be required to minimize long-term debt financing.

Park Acquisition Strategy

This plan provides for the parkland acquisition standard of 2.2 hectares per thousand of population and the acquisition of natural space by means other than cash outlay.

Parks Development Strategy

Parks development costs will be a function of the capital allocation deemed reasonable annually and are to be shared by the community rather than through increased development cost charge fees.

Pavement Management Strategy

Annual general revenue contributions are to increase from the baseline of \$1.9 million over the ten year program.

Storm Drainage Retrofit Strategy

Annual general revenue contribution of \$1.6 million is provided to fund storm drainage retrofits over the ten-year plan.

Waterfront Amenities Strategy

An annual allocation is provided for some waterfront land acquisitions but the emphasis is on private enterprise or community contributions to develop other amenities.

Top 10 Principal Corporate Taxpayers

2012

Legal Name	Type of Property
1 Orchard Park Shopping Centre	Shopping Mall
2 Delta Hotels No. 48 Holdings Ltd.	Hotel & Convention Centre
3 Inland Natural Gas Co Ltd.	Gas Utility
4 FortisBC Inc.	Electrical Utility
5 Mcintosh Properties Ltd.	Shopping Mall
6 4231 Investments Ltd.	Shopping Mall
7 Wal-Mart Canada Corp.	Shopping Mall
8 Victor Projects Ltd.	Developer
9 Dilworth Shopping Centre Ltd.	Shopping Mall
10 Tolko Industries Ltd.	Forest Products Industry

2011

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9 Victor Projects Ltd.	Developer
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PERMISSIVE TAX EXEMPTIONS

Art Gallery, Museum, Heritage, Cultural Purpose

Central Okanagan Heritage Society	\$9,288
Centre Culturel Français de l' Okanagan	\$2,538
City of Kelowna Library Society	\$81,918
Kelowna Art Gallery	\$66,047
Kelowna Museum	
The Okanagan Heritage Museum	\$5,255
Kelowna Museums Society (Laurel Packinghouse)	\$35,749
Kelowna Visual and Performing Arts Centre Society	\$69,183
Okanagan Military Museum Society	\$3,022
Roman Catholic Bishop of Nelson Pandosy Mission	\$1,745

Athletic or Service Club

Central Okanagan Land Trust	\$10,235
Central Okanagan Small Boat Association	\$22,372
East Kelowna Community Hall Association	\$1,725
Kelowna & District Boys & Girls Club	\$8,145
Kelowna & District Fish & Game Club	\$4,543
Kelowna Badminton Club	\$5,904
Kelowna Curling Club	\$27,788
Kelowna Lawn Bowling Club	\$6,823
Kelowna Major Men's' Fastball Association	\$15,684
Kelowna Minor Fastball Society	\$4,855
Kelowna Riding Club	\$4,107
Kelowna Yoga House Society	\$6,043
Nature Trust of BC	\$41,600
Okanagan Boys & Girls Clubs	\$62,270
Okanagan Gymnastic Centre	\$12,636
Okanagan Mission Community Hall Association	\$3,843
Rutland Park Society	\$17,757
Scouts Canada	\$9,518

Charitable or Philanthropic

Adult Integrated Mental Health Services Society	\$2,632
Alzheimer Society of BC	\$3,629
Arion Therapeutic Riding Association	\$4,487
BC Society for Prevention of Cruelty to Animals	\$7,135
BHF Building Healthy Families	\$1,472
Big Brothers Big Sisters of the Okanagan Society	\$3,958
Bridges to New Life Society	\$3,017
Canadian Mental Health Association	\$5,608
Central Okanagan Child Development Association	\$14,722
Central Okanagan Emergency Shelter Society	\$2,926
Columbus Holding Society	\$3,863
Father DeLestre Columbus Society	\$2,805
German - Canadian Harmonie Club	\$4,907
Howard-Fry Housing Society	\$1,565
John Howard Society of the Central and South Okanagan	\$1,617

Kalano Club of Kelowna	\$3,350
Kelowna & District S.H.A.R.E. Society	\$8,909
Kelowna & District Safety Council Society	\$2,734
Kelowna & District Society for Community Living	\$7,472
Kelowna Centre for Positive Living Society	\$1,444
Kelowna Child Care Society	\$2,775
Kelowna Community Food Bank Society	\$10,789

Kelowna Community Music Society	\$3,210
Kelowna Community Resources & Crisis	\$3,172
Kelowna Elks Lodge No 52	\$1,635
Kelowna Gospel Mission Society	\$12,109
Kelowna Italian Club	\$2,079
Kelowna Sr. Citizens Society of BC	\$4,910
Kelowna(#26) Royal Canadian Legion	\$2,310
KGH - Rutland Auxiliary Thrift Shop	\$6,741
Ki-Low-Na Friendship Society	\$19,681
MADAY Society for Seniors	\$2,898
National Society of Hope	\$3,064
New Opportunities for Women (NOW)	
Canada Society	\$23,523
Okanagan Halfway House Society Inc	\$5,058
Okanagan Mental Health Services Society	\$2,693
Reach Out Youth Counseling & Services Society	\$3,687
Resurrection Recovery Resource Society Inc.	\$5,913
Salvation Army Community Resource Centre	\$19,057
Society of Vincent De Paul of Central Okanagan	\$2,763
The Bridge Youth & Family Services Society	\$4,238
The Society of Housing Opportunities and Progressive Employment	\$1,624
Willow Park Mennonite Brethren Church	\$13,671

Housing Construction (Elderly Citizens) Act

Seventh Day Adventist Church	\$2,657
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Private Hospital Licensed Under Community Care Facility Act

Canadian Cancer Society	\$37,203
Crossroads Treatment Centre Society	\$11,969
Interior Health Authority	\$112,098

Public Worship-Church Hall

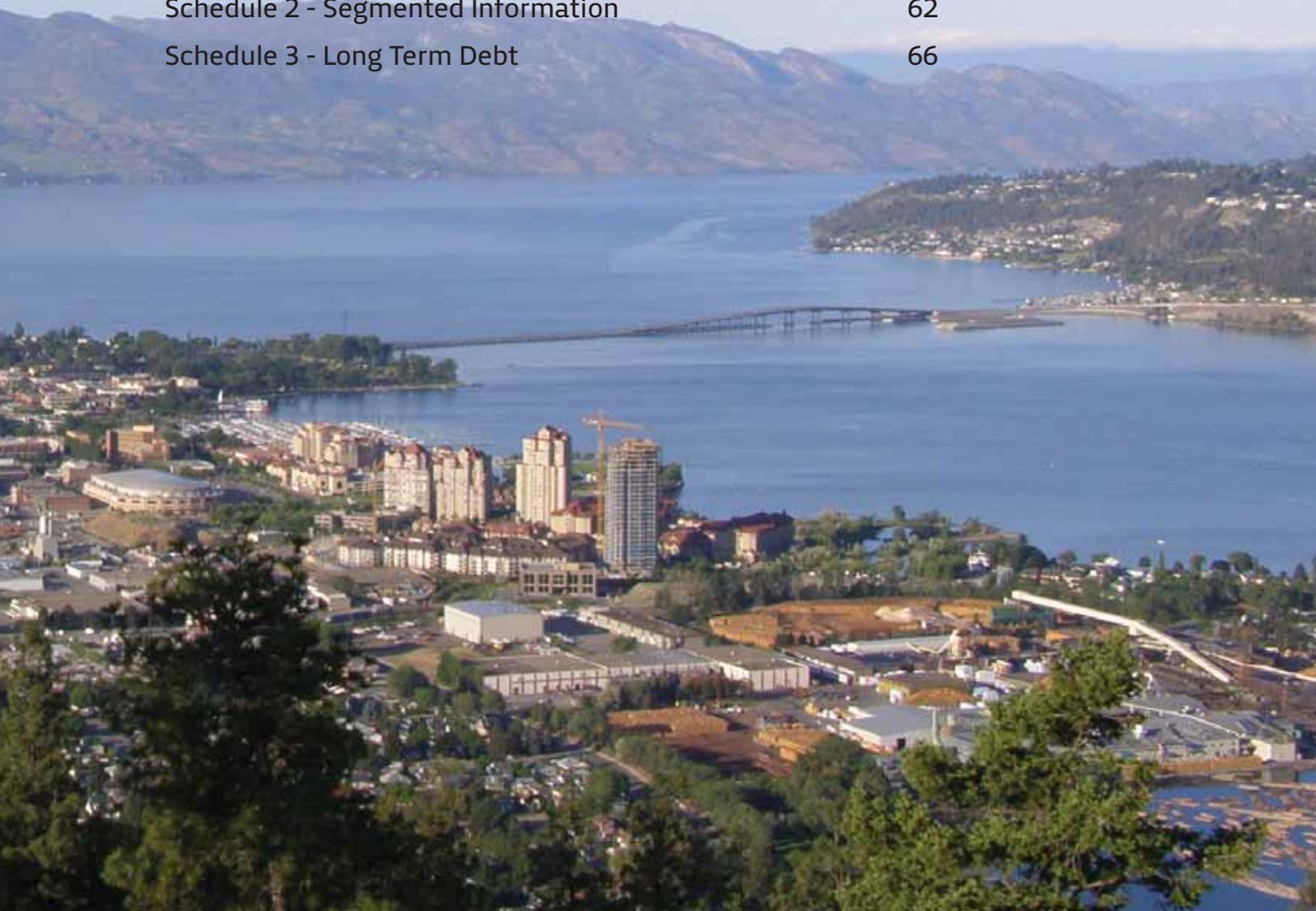
Kelowna Free Methodist Church	\$2,881
Christian Science Society of Kelowna	\$3,037
St. Michaels Anglican Church	\$5,713

Total value of municipal taxes exempted \$962,003



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REPORT FROM THE DIRECTOR FINANCIAL SERVICES

May 2013

The Mayor and Council
City of Kelowna

Your Worship and Members of Council

I am pleased to submit the City of Kelowna's 2012 Annual Financial Report for the year ended December 31, 2012, as required by Sections 98 and 167 of the Community Charter. The report includes the Auditor's report, the 2012 audited financial statements and supplementary information for the City of Kelowna.

The financial statements for the year ended December 31, 2012 were prepared by City staff in accordance with generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Management is responsible for implementing and maintaining a system of internal controls to ensure that reliable financial statements and schedules are prepared and that these statements are consistent with other reporting requirements as part of the Financial Information Act. These statements were audited by Grant Thornton LLP and their responsibility was to express an opinion based on the results of the audit. The audit was planned and performed to obtain reasonable assurance as to whether the financial statements were free of material error or misstatement. The statements have been reviewed by the City's Audit Committee, whose responsibility is to ensure the financial statements are comprehensive, reliable and understandable.

The City strengthened its financial position in 2012 with accumulated surplus increasing by \$34 million to over \$1.67 billion. Revenues increased by \$15 million from 2011 mainly related to an increase in fees and charges (\$8.1 million) and in Development Cost Charge contributions (\$7.0 million). Expenditures at \$251.5 million are almost identical to 2011 however Electrical utility bulk power costs were higher and General Government costs lower than last year.



The General Fund ended the year with a \$2,049,000 surplus from operations which was 2.1 per cent of the 2012 taxation demand. The tax increase of 1.1 per cent provided for existing service levels for most departments and increased the protective services area. This reflects the core corporate values in the development of a safe, vibrant and sustainable city.

The Annual Report provides an opportunity to communicate with stakeholders and other report users on the City's 2012 financial performance along with related information on projects and financial strategies. Continuing to focus on current economic conditions with a long term strategic planning view will align the financial capacity with community service requirements.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'K. Grayston', written in a cursive style.

Keith Grayston, CGA
Director, Financial Services



Grant Thornton LLP
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Kelowna, BC V1Y 2A8

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www.GrantThornton.ca

Independent Auditors' Report

To the Members of Council of the City of Kelowna

We have audited the accompanying consolidated financial statements of the City of Kelowna (the "City"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement 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.

Management's responsibility 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Kelowna as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Kelowna, BC
May 7, 2013

Grant Thornton LLP
Chartered Accountants

Consolidated Statement of Financial Position

As at December 31, 2012 (in thousands of dollars)

	Actual 2012	Actual 2011
Financial Assets		
Cash and temporary investments (Note 3)	\$ 211,092	\$ 216,017
Accounts receivable (Note 3)	29,986	37,158
Accrued interest	463	412
Long term investments (Note 8)	6,000	6,000
Property held for resale	591	217
Other	24	35
	248,156	259,839
Financial Liabilities		
Accounts payable	42,201	44,886
Performance deposits	7,457	6,156
Deferred revenue (Note 3)	35,562	34,230
Deferred development cost charges (Note 3)	26,632	38,629
Long term debt	134,913	149,528
	246,765	273,429
Net Financial Assets (Liabilities)	1,391	(13,590)
Non-Financial Assets		
Prepaid expenses	1,449	1,506
Inventory	1,324	1,725
Work in progress (Note 4)	104,548	120,824
Tangible capital assets (Note 4)	1,566,769	1,531,444
	1,674,090	1,655,499
Accumulated Surplus (Note 5)	\$ 1,675,481	\$ 1,641,909

Contingent liabilities and Commitments (Notes 6 and 7)

See accompanying notes to the consolidated financial statements.



Keith Grayston, CGA
Director, Financial Services



Walter Gray
Mayor, City of Kelowna

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31, 2012 (in thousands of dollars)

	<u>Budget 2012</u>	<u>Actual 2012</u>	<u>Actual 2011</u>
Revenue			
Taxation	\$ 110,560	\$ 110,493	\$ 107,662
Fees and charges	120,155	129,689	121,598
Interest earned	4,280	5,267	5,854
DCC contributions	17,480	17,879	10,918
Contribution from other governments	32,319	17,593	19,842
Other capital contributions	414	2,915	4,179
Gain on disposal of tangible capital assets	-	1,274	479
	<hr/> 285,208	<hr/> 285,110	<hr/> 270,532
Expenses			
General government services	22,079	17,140	19,882
Protective services	44,785	43,077	43,296
Transportation services	30,740	30,297	30,738
Recreational and cultural services	30,638	30,153	29,512
Other services	16,985	15,490	16,187
Airport operations	10,160	10,214	9,357
Electrical utility	23,818	24,403	22,234
Wastewater utility	9,400	8,450	8,557
Water utility	5,565	4,830	5,077
Amortization of tangible capital assets	-	57,329	56,348
Debt charges	10,431	10,155	10,125
	<hr/> 204,601	<hr/> 251,538	<hr/> 251,313
Excess of Revenue Over Expenses	<hr/> \$ 80,607	<hr/> 33,572	<hr/> 19,219
Accumulated Surplus, beginning of year		1,641,909	1,622,690
Accumulated Surplus, end of year		<hr/> \$ 1,675,481	<hr/> \$ 1,641,909

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Net Financial Assets

For the year ended December 31, 2012 (in thousands of dollars)

	Budget 2012	Actual 2012	Actual 2011
Excess of Revenue Over Expenses	\$ 80,607	\$ 33,572	\$ 19,219
Amortization of tangible capital assets	-	57,329	56,348
Proceeds from disposal of tangible capital assets	-	2,509	3,102
Gain on disposal of tangible capital assets	-	(1,274)	(479)
Acquisition of tangible capital assets	(149,734)	(77,613)	(65,446)
Change in inventory and prepaid expenses	-	458	(997)
	(69,127)	14,981	11,747
Net Financial Assets (Liabilities), beginning of year	(13,590)	(13,590)	(25,337)
Net Financial Assets (Liabilities), end of year	\$ (82,717)	\$ 1,391	\$ (13,590)

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flow

For the year ended December 31, 2012 (in thousands of dollars)

	Actual 2012	Actual 2011
Net cash inflow (outflow) related to the following activities		
Operating		
Excess of Revenue Over Expenses	\$ 33,572	\$ 19,219
Adjustment for non-cash items		
Amortization of tangible capital assets	57,329	56,348
Gain on disposal of tangible capital assets	(1,274)	(479)
Other capital contributions	(2,915)	(2,938)
Developer contributions of tangible capital assets	(5,317)	(4,001)
Decrease (increase) in non-cash financial assets		
Accounts receivable	7,172	6,195
Inventory and prepaid expenses	458	(997)
Other assets	(40)	(39)
Increase (decrease) in non-cash liabilities		
Accounts payable	(2,685)	3,380
Deferred development cost charges	(11,997)	(4,505)
Other liabilities	2,633	1,017
	76,936	73,200
Capital		
Acquisition of tangible capital assets	(72,670)	(61,662)
Proceeds from disposal of tangible capital assets	2,509	3,102
	(70,161)	(58,560)
Financing		
Issuance of long term debt	-	5,800
Repayment of long term debt	(11,700)	(12,183)
	(11,700)	(6,383)
Net increase (decrease) in cash and temporary investments	(4,925)	8,257
Cash and temporary investments, beginning of year	216,017	207,760
Cash and temporary investments, end of year	\$ 211,092	\$ 216,017
Supplemental cash flow information		
Interest paid	\$ 10,154	\$ 10,107
Non-cash capital activities		
Acquisition of tangible capital assets through developer contributions	\$ 5,317	\$ 4,001
Property held for resale transferred from tangible capital assets	\$ 591	\$ 217

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2012 (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.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards.

The following is a summary of the City's significant accounting policies:

Basis of presentation

The City of Kelowna's resources and operations are segregated into General, Airport, Electrical Utility, 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 City of Kelowna Library Society is controlled by the City of Kelowna through its appointment of the members of the society. Accordingly, the consolidated financial statements include all the accounts of the society.

Accrual accounting

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

Inventory

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

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.

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:

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

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Land and Work in Progress are not amortized.

Contributions of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at their fair market value. Contributions received in 2012 were \$5.3 million (2011 - \$4.0 million).

Intangible Assets

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

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 Royal Bank of Canada bank prime rate less 2%. Capitalized interest for 2012 was \$450 (2011 - \$83,000)

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:

	2012	2011
Cash Deposits held by MFA	\$ 2,642	\$ 2,574
Demand Notes held by MFA	8,019	8,039
	<u>\$ 10,661</u>	<u>\$ 10,613</u>

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 temporary 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 affects of these adjustments on taxes are recognized at the time they are awarded.

Fees and charges revenue

Charges for transportation, environmental health, building permits, electrical, 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, have 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 of the units held.

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.

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, landfill post closure costs and settlement costs associated with outstanding legal actions.

2. FUTURE ACCOUNTING CHANGES

PS 3410 – Government transfers

This section replaces the existing Section PS 3410 Government transfers. This section establishes standards for recognition, presentation and disclosure for government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective. This section applies to fiscal years beginning on or after April 1, 2012, with early adoption permitted.

PS 3260 – Liability for contaminated sites

This section establishes the recognition, measurement and disclosure requirements for reporting liabilities associated with remediation of contaminated sites. The section does not deal with tangible capital asset retirement obligations, liabilities associated with the disposal or sale of a tangible capital asset and acquisition/betterment costs for tangible capital assets that are less than the future economic benefits. This section applies to fiscal years beginning on or after April 1, 2014, 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, 2015, with early adoption permitted.

PS 2601 – Foreign currency translation

This section revises and replaces the existing Section PS 2600 Foreign currency translation. This section applies to fiscal years beginning on or after April 1, 2015, with early adoption permitted.

PS 1201 – Financial statement presentation

This section revises and replaces the existing Section PS 1200 Financial statement presentation. This section applies to fiscal years beginning on or after April 1, 2015, with early adoption permitted.

3. FINANCIAL ASSETS AND LIABILITIES

Cash and temporary investments

Cash and temporary investments are recorded at cost and are comprised of the following:

Type of Investment	2012	2011
Cash	\$ 18,482	\$ 32,382
Municipal Finance Authority bond/intermediate funds	32,082	42,055
Provincial and bank issued accrual notes and debentures	120,436	111,425
Guaranteed investment certificates and deposit notes	40,092	30,155
Total cash and temporary investments	\$ 211,092	\$ 216,017

The temporary investments held are readily convertible to cash and are therefore included in Cash and temporary investments.

Accounts receivable

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

Type of Receivable	2012	2011
Property Tax	\$ 6,487	\$ 6,541
Trade Receivables	11,722	16,228
Due from Federal Government	2,261	2,606
Due from Provincial Government	1,241	2,167
Due from Regional Government	56	87
Utilities	6,986	7,099
Deferred Development Cost Charges	1,233	2,430
Total Accounts Receivable	\$ 29,986	\$ 37,158

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, 2012 the balance outstanding was \$nil (2011 - \$nil).

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.

Deferred Revenue by Type	2012	2011
Tax prepayments	\$ 15,254	\$ 14,516
Construction	13,055	12,426
Local Service Areas	3,778	3,785
Other	2,597	2,621
Grants	878	882
	<u>\$ 35,562</u>	<u>\$ 34,230</u>

Deferred Development Cost Charges (DCC)

The City collects development cost charges (DCC) 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 restricted in nature they are shown as a liability.

Deferred DCC by Type	2012	2011	Deferred DCC	2012	2011
Roads	\$ 13,333	\$ 13,354	Balance, beginning of year	\$ 38,629	\$ 43,134
Parks	(1,408)	3,575	Return on investments	888	1,320
Drainage	1,598	3,446	DCC collected in the year	4,994	5,093
Wastewater	1,751	6,985		<u>5,882</u>	<u>6,413</u>
Water	11,358	11,269	DCC contributions recognized as revenue	(17,879)	(10,918)
Total Deferred DCC	<u>\$ 26,632</u>	<u>\$ 38,629</u>	Balance, end of year	<u>\$ 26,632</u>	<u>\$ 38,629</u>

Debt as a percentage of total expenditures	2012	2011	2010	2009	2008
	53.64%	59.50%	64.66%	68.61%	60.77%

Other Payable

The BC Ministry of Transportation has agreed to allow the City to repay its share of the infrastructure for the Highway 33 reconstruction project over a 3 year term. The City repaid \$3.0 million in 2011, \$3.0 million in 2012 and an estimate of \$2.9 million remains to be paid in 2013. This payable does not bear interest.

The City has a long term payable of \$1.5 million (2011 – \$3.0 million) with Risso Estates Ltd. The remaining obligation of \$1.5 million will be paid in 2013. The long term payable bears interest at Royal Bank prime rate, is secured by specific park land and is paid annually.

Long term debt

Debtenture debt principal is reported net of sinking fund balances. Interest rates on long term debt ranged from 3.15% to 10.07%. The weighted average rate for 2012 was 4.73% (2011 – 4.69%). Principal repayments for the next five years are as follows:

	2013	2014	2015	2016	2017
General Fund	\$ 2,531	\$ 2,531	\$ 2,514	\$ 2,514	\$ 2,494
Airport Fund	1,333	1,333	1,333	1,333	1,333
Wastewater Fund	4,604	4,604	4,197	4,157	4,157
Water Fund	333	333	333	333	333
Natural Gas Legacy Fund	1,699	1,699	1,699	1,699	1,699
Library Society	386	422	460	502	179
	<u>\$ 10,886</u>	<u>\$ 10,922</u>	<u>\$ 10,536</u>	<u>\$ 10,538</u>	<u>\$ 10,195</u>

4. TANGIBLE CAPITAL ASSETS AND WORK IN PROGRESS

	2012 Work in Progress	2012 Tangible Capital Assets (NBV)	2011 Work In Progress	2011 Tangible Capital Assets (NBV)
Land	\$ 90	\$ 180,139	\$ 99	\$ 158,786
Land Improvements	4,073	30,931	1,806	31,690
Buildings	11,127	167,827	12,217	163,258
Infrastructure	85,124	1,110,295	104,983	1,097,997
Machinery and Equipment	4,134	39,978	1,719	40,514
Natural Gas System (Capital Lease)	-	37,599	-	39,199
	\$ 104,548	\$ 1,566,769	\$ 120,824	\$ 1,531,444

Schedule 1 provides a break down of tangible capital assets and work in progress by function showing the cost, accumulated amortization and net book value of the tangible capital assets.

5. ACCUMULATED SURPLUS

	Reserves for Future Expenditures	Statutory Reserves	Fund Surpluses	Investment in Tangible Capital Assets	Total 2012	Total 2011
Accumulated surplus, beginning of year	\$ 76,080	\$ 47,950	\$ 22,720	\$ 1,495,159	\$ 1,641,909	\$ 1,622,690
Excess of revenue over expenses	98	1,582	66,249	(34,357)	33,572	19,219
Transfers	(2,004)	(9,660)	11,664	-	-	-
Acquisition of tangible capital assets	-	-	(60,833)	60,833	-	-
Repayment of long term debt	-	-	(11,700)	11,700	-	-
Accumulated surplus, end of year	\$ 74,174	\$ 39,872	\$ 28,100	\$ 1,533,335	\$ 1,675,481	\$ 1,641,909

Accumulated Surplus detail as follows:

	Balances, Beginning of Year	Transfer From	Transfer To	Interest and other	Balances, End of Year
Non-Statutory Reserves					
General Fund Reserve	\$ 37,364	\$ 10,572	\$ 15,481	\$ (164)	\$ 42,109
Airport Fund Reserve	21,279	17,941	10,608	185	14,131
Electrical Fund Reserve	3,523	1,659	1,299	13	3,176
Waste Water Fund Reserve	8,504	1,379	170	18	7,313
Water Fund Reserve	5,410	462	2,451	46	7,445
	76,080	32,013	30,009	98	74,174
Statutory Reserves					
Parking Reserve	1,378	552	723	39	1,588
Land Reserve	9,477	3,683	2,551	263	8,608
Capital Works, Machinery & Equip Reserve	37,095	19,668	10,969	1,280	29,676
	47,950	23,903	14,243	1,582	39,872
Surplus by Fund					
General Fund Surplus	1,699	71,212	32,874	38,402	1,763
Airport Fund Surplus	271	10,875	1,333	9,542	271
Electrical Fund Surplus	4,003	4,507	623	4,507	4,626
Waste Water Fund Surplus	10,345	15,039	8,792	10,006	14,104
Water Fund Surplus	1,490	1,968	1,186	1,547	2,255
Natural Gas Legacy Surplus	4,746	3,614	1,892	1,891	4,915
Library Surplus	166	708	354	354	166
Accumulated Surplus	22,720	107,923	47,054	66,249	28,100
Investment in Non Financial Assets					
Investment in Tangible Capital Assets	1,495,159	49,026	121,559	(34,357)	1,533,335
Accumulated Surplus	\$ 1,641,909	\$ 212,865	\$ 212,865	\$ 33,572	\$ 1,675,481

6. 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 City and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer

contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 176,000 active members and approximately 67,000 retired members. Active members include approximately 35,000 contributors from local governments.

The most recent valuation as at December 31, 2009 indicated a \$1.024 billion funding deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

The City of Kelowna paid \$5.3 million (2011 - \$4.7 million) for employer contributions while employee contributions were \$4.4 million (2011 - \$3.9 million) to the plan in fiscal 2012.

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.

Royal Canadian Mounted Police Contract

The City of Kelowna does not accrue expenses for banked time earned by RCMP members during their term of service as under the terms of the contract the City is only billed for actual costs. The City recognizes the expense for banked time when the event obligates the City to pay.

The Federal Government and the Royal Canadian Mounted Police are currently disputing a retroactive wage increase to the members dating back to 2009. While the outcome of the dispute is unknown at this time, under the terms of the contract the City of Kelowna may be required to pay the retroactive increase, estimated to be approximately \$1.0 million, to the members should the ruling be upheld. The City will recognize the expense for any retroactive wages it is obligated to pay when the dispute is resolved.

7. 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, 2012 which have not been recorded in the accounts. Due to the reporting capabilities in the Agresso financial system 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.

Landfill closure and post closure costs

As recommended by PSAB 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. The City's estimated liability for these expenditures is recognized as the landfill site's capacity is used. The reported liability of \$3.5 million (2011 - \$3.5 million) represents the portion of the estimated total expenditure recognized as at December 31, 2012. 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.

The reported liability is based on estimates and assumptions with respect to events extending over the remaining life of the landfill. The remaining capacity of the landfill site is estimated at 17.6 million tonnes, which is 92.5% of the site's total capacity. The future cash flows for closure and post-closure cost is estimated at \$11.9 million as at December 31, 2012. The landfill site is expected to reach its capacity in 2075.

Kelowna Family Y Centre loan guarantee agreement

The City has, under the terms of the partnering agreement between the City of Kelowna and YMCA-YWCA of Central Okanagan, guaranteed repayment in the event that the YMCA-YWCA of Central Okanagan defaults on a \$1.8 million, 20 year loan. Under the agreement the City shall resume operation of the facility and assume responsibility for the repayment of the debt incurred by the YMCA-YWCA of Central Okanagan. During 2012 an amendment was made to the agreement for additional financing of \$700,000. As at December 31, 2012 the outstanding loan balance was \$1,380,522 (2011 - \$ 768,750).

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;
 - (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 2012 represented year 13 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 either of the lump sum payment of \$13.2 or \$11.9 million otherwise due to RG Arenas (Kelowna) Ltd. in years 6 or 11.

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. This agreement has a 20 year term expiring on March 31, 2032.

8. 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 2028 per the terms of that agreement described in Note 7.

9. 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 \$22.9 million (2011 - \$22.8 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 \$22.9 million, the City is holding irrevocable Letters of Credit in the amount of \$1.2 million (2011 - \$2.4 million) which are received from developers to ensure payment of development cost charges in future years.

10. CAPITAL LEASE PAYABLE

The City has entered into an agreement with FortisBC Energy Inc. ("Fortis") that has resulted in the creation of the Natural Gas Legacy Fund.

Capital lease

Under the terms of the agreement the City entered into a 35 year capital lease with Fortis on November 1, 2001 for the natural gas distribution system within the City's municipal boundary. The City has prepaid \$47.5 million of the capital lease obligation and has financed the prepayment through debenture debt. The remaining obligation of \$2.3 million, which is included in long term debt, will be paid with annual lease payments of \$260,870 including interest based on Fortis approved pre-tax weighted average cost of capital of 10.072%.

Operating lease

The City also entered into a 17 year operating lease with Fortis on November 1, 2001 whereby the City leases back to Fortis the operations of the gas distribution system. Under the operating lease Fortis is required to make annual lease payments to the City calculated by a formula specified in the agreement which is based on the total annual revenue generated by the transaction. At the end of the 17 year term Fortis has the option of making a termination payment to the City equal to the unamortized portion of the City's \$47.5 million prepayment under the capital lease, which is estimated to be \$27.0 million, or negotiate a new 18 year operating lease with a continuation of the annual lease payments which existed under the previous 17 year operating lease.

Annual lease revenues for the past five years are:

2008	\$5.1 million
2009	\$4.9 million
2010	\$5.0 million
2011	\$4.8 million
2012	\$4.6 million

11. CITY OF KELOWNA LIBRARY SOCIETY

In March 1997, the City transferred the Library building and land located on Ellis Street in the City of Kelowna and the related mortgage loan to the City of Kelowna Library Society, a non-profit society. The City has guaranteed the repayment of the mortgage. As at December 31, 2012 the mortgage balance was \$1.9 million (2011 - \$2.3 million). The City has taken back an option to purchase these assets at a nominal value. The Society's financial information is included in with the City of Kelowna consolidated financial statements.

12. TRUST FUNDS

In accordance with PSAB recommendations for local governments, 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, 2012 the Trust Fund balance is \$2.1 million (2011 - \$2.0million).

13. SEGMENTED INFORMATION

The City of Kelowna is connecting communities and providing a multitude of services to the citizens of Kelowna. The City's operations and activities are organized and reported by funds and departments. The General Fund reports on operations, funded primarily by property taxes, which include services provided by the City such as general government, protective services, transportation services, recreation and cultural services, as well as public health, and environmental and development services. The City also operates its own airport and City utilities comprised of the electrical, 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 and municipal administration, fire protection services, building inspection services and bylaw enforcement as well as the Provincial Emergency Program.

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.

Costs for maintenance and repair of police and fire buildings are included in this section.

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 & Cultural Services

Recreation & 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 Art Gallery and the Rotary Centre for the Arts are some of the larger facilities included.

Other Services

(Public Health/Environmental/Development Services)

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

Airport Services

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

Electrical Services

The Electrical Division oversees the delivery of reliable and safe electricity within the City's electrical utility boundary. FortisBC supplies power to the electric utility. FortisBC provides all network operations for the distribution system including maintenance, capital project planning, management and construction and electric meter management. The Electrical Utility 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 liters 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 five water suppliers operating within Kelowna's boundaries. 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 Energy Inc. for a 35 year capital lease for the natural gas distribution system within the City's municipal boundary and a 17 year operating lease whereby the City leases back to FortisBC Energy Inc. the operations of the gas distribution system. The Natural Gas Legacy Fund is accounted for in its own fund.

Library Services

The City of Kelowna Library Society is a non-profit society instituted and controlled by the City of Kelowna. The Society was incorporated for the purpose of establishing, operating, and maintaining libraries and library services for the benefit of the City of Kelowna and its citizens. Financial statements for the Society are prepared separately and are consolidated with the City of Kelowna.

Statutory Reserves

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

14. EXPENSES BY OBJECT

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

15. BUDGET DATA

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15 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.

Budget Amount

Revenue	
Operating budget	\$ 249,229
Capital budget	35,979
	<u>285,208</u>
Expenses	
Operating budget	204,601
Capital budget	149,734
	<u>354,335</u>
Annual deficit per approved budget	<u>(69,127)</u>
Tangible capital asset purchases	149,734
Annual surplus per statement of operations	<u>\$ 80,607</u>

16. COMPARATIVE FIGURES

The comparative revenues and expenses have been restated to reflect the netting of internal changes in the amount of \$9.5 million. There was no impact on the excess of revenue over expense, accumulated surpluses or statement of financial position.

17. SUBSEQUENT EVENT

The City of Kelowna's electrical utility was transferred to FortisBC with the completed purchase of the City's electrical assets on March 29, 2013 for proceeds of \$55,000,000. The sale follows the successful completion of a public approval process by both the B.C. Utilities Commission and the City's alternative approval process.

Schedule 1 - Tangible Capital Assets

For the Year Ended December 31, 2012 (in thousands of dollars)

	Machinery & Equipment							Subtotal Machinery & Equipment
	Land	Land Improvements	Buildings	Vehicles	Other Machinery & Equipment	Computer	Misc	
Cost								
Balance, beginning of year	\$ 158,786	\$ 54,138	\$ 257,596	\$ 23,827	\$ 44,085	\$ 12,166	\$ 3,769	\$ 83,847
Add: additions during the year	22,938	1,385	13,029	3,769	1,031	635	28	5,463
Less: capital held for resale	(591)	-	-	-	-	-	-	-
Less: disposals during the year	(994)	-	(94)	(902)	-	-	-	(902)
Balance, end of year	180,139	55,523	270,531	26,694	45,116	12,801	3,797	88,408
Accumulated amortization								
Balance, beginning of year	-	22,448	94,338	10,811	23,890	7,838	794	43,333
Add: amortization	-	2,144	8,423	1,888	2,641	1,039	227	5,795
Less: accumulated amortization on disposals	-	-	(57)	(698)	-	-	-	(698)
Balance, end of year	-	24,592	102,704	12,001	26,531	8,877	1,021	48,430
Net book value of tangible capital assets	\$ 180,139	\$ 30,931	\$ 167,827	\$ 14,693	\$ 18,585	\$ 3,924	\$ 2,776	\$ 39,978
Work in progress	\$ 90	\$ 4,073	\$ 11,127	\$ -	\$ 1,218	\$ 661	\$ 2,255	\$ 4,134

Infrastructure

Plant & Facilities	Roads, Lanes Sidewalks & Bike Paths	Bridges Tunnels & Overpasses	Underground, Overhead & Other Networks	Airport Infrastructure	Subtotal Infrastructure	Natural Gas Capital Lease	Total 2012	Total 2011
\$ 98,485	\$ 443,981	\$ 28,643	\$ 1,051,584	\$ 31,513	\$ 1,654,206	\$ 55,609	\$ 2,264,182	\$ 2,184,932
12,060	31,938	963	6,370	334	51,665	-	94,480	82,820
-	-	-	-	-	-	-	(591)	(218)
-	-	-	-	-	-	-	(1,990)	(3,352)
110,545	475,919	29,606	1,057,954	31,847	1,705,871	55,609	2,356,081	2,264,182
39,861	179,824	5,830	314,442	16,252	556,209	16,410	732,738	677,119
3,289	17,308	410	16,847	1,513	39,367	1,600	57,329	56,348
-	-	-	-	-	-	-	(755)	(729)
43,150	197,132	6,240	331,289	17,765	595,576	18,010	789,312	732,738
\$ 67,395	\$ 278,787	\$ 23,366	\$ 726,665	\$ 14,082	\$ 1,110,295	\$ 37,599	\$ 1,566,769	\$ 1,531,444
\$ 59,879	\$ 4,863	\$ 559	\$ 9,226	\$ 10,597	\$ 85,124	\$ -	104,548	120,824
							\$ 1,671,317	\$ 1,652,268

Schedule 2 - Segmented Information

For the Year Ended December 31, 2012 (in thousands of dollars)

	General Gov't	Protective Services	Transportation Services	Recreation & Cultural Services	Other Services	Airport Services
Revenue						
Taxation	\$ 107,235	\$ -	\$ 109	\$ -	\$ -	\$ -
Fees and charges	26,715	430	7,249	4,260	11,266	20,099
Interest earned	3,198	-	-	-	-	197
DCC contribution	-	-	2,728	6,196	1,940	-
Contribution from other governments	3,670	3,688	8,603	169	102	1,063
Other capital contributions	499	-	-	-	-	166
Gain on disposal of tangible capital assets	1,274	-	-	-	-	-
	142,591	4,118	18,689	10,625	13,308	21,525
Expenses						
Salaries and benefits	13,701	21,398	8,034	9,511	4,738	3,483
Contract and professional services	3,320	1,730	20,403	7,490	7,018	594
RCMP contract	-	19,725	-	-	-	369
Materials and supplies	4,913	1,076	176	9,402	1,036	4,622
Equipment	186	317	2,207	1,421	1,561	6
Allocations	(4,707)	-	(313)	(118)	(670)	965
Cost recoveries	(782)	(1,600)	(547)	(459)	(271)	(515)
Grants and external transfers	363	91	31	1,067	1,702	-
Utilities	101	237	292	1,281	80	524
Amortization of tangible capital assets	1,483	927	25,142	8,238	1,367	4,257
Total before debt	18,578	43,901	56,062	37,833	16,561	14,305
Debt interest and fiscal services	2,798	-	-	-	-	744
Total operating expenses	21,376	43,901	56,062	37,833	16,561	15,049
Excess (deficiency) revenue over expenses	\$ 121,215	\$ (39,783)	\$ (37,373)	\$ (27,208)	\$ (3,253)	\$ 6,476

Electrical Services	Wastewater Services	Water Services	Natural Gas Legacy Services	Library Services	Statutory Reserves	2012
\$ -	\$ 1,748	\$ 1,401	\$ -	\$ -	\$ -	\$ 110,493
31,020	14,190	8,641	4,805	782	232	129,689
125	309	87	-	-	1,351	5,267
-	6,680	335	-	-	-	17,879
-	298	-	-	-	-	17,593
-	759	55	1,436	-	-	2,915
-	-	-	-	-	-	1,274
31,145	23,984	10,519	6,241	782	1,583	285,110
131	2,815	1,852	-	15	-	65,678
2,120	567	518	-	141	-	43,901
-	-	-	-	-	-	20,094
22,714	577	732	-	26	-	45,274
-	590	365	-	-	-	6,653
1,529	2,657	681	20	-	-	44
3	(252)	(76)	-	(7)	-	(4,506)
-	-	-	-	-	-	3,254
-	127	363	-	20	-	3,662
1,175	8,487	4,491	1,600	162	-	57,329
27,672	15,568	8,926	1,620	357	-	241,383
-	3,040	493	2,894	186	-	10,155
27,672	18,608	9,419	4,514	543	-	251,538
\$ 3,473	\$ 5,376	\$ 1,100	\$ 1,727	\$ 239	\$ 1,583	\$ 33,572

Schedule 2 - Segmented Information

For the Year Ended December 31, 2011 (in thousands of dollars)

	General Gov't	Protective Services	Transportation Services	Recreation & Cultural Services	Other Services	Airport Services
Revenue						
Taxation	\$ 104,152	\$ -	\$ 149	\$ -	\$ -	\$ -
Fees and charges	23,003	378	5,334	4,294	13,443	18,787
Interest earned	3,818	-	-	-	-	236
DCC contribution	-	-	5,876	2,924	7	-
Contribution from other governments	6,575	3,596	7,219	266	1,347	409
Other capital contributions	1,555	-	-	-	-	108
Gain on disposal of tangible capital assets	754	-	(110)	(164)	-	(1)
	139,857	3,974	18,468	7,320	14,797	19,539
Expenses						
Salaries and benefits	14,283	21,027	7,986	8,659	5,123	3,179
Contract and professional services	3,852	1,706	19,356	7,485	7,031	449
RCMP contract	-	20,060	-	-	-	357
Materials and supplies	5,020	1,018	1,093	8,825	962	4,147
Equipment	235	328	2,362	1,425	1,786	10
Allocations	(4,574)	-	(240)	(118)	(725)	907
Cost recoveries	539	(1,434)	(370)	(252)	(6)	(507)
Grants and external transfers	343	114	50	1,264	1,602	-
Utilities	143	373	1,272	1,734	125	541
Amortization of tangible capital assets	1,277	897	25,088	7,888	1,206	4,142
Total before debt	21,118	44,089	56,597	36,910	17,104	13,225
Debt interest and fiscal services	2,663	-	-	-	-	744
Total operating expenses	23,781	44,089	56,597	36,910	17,104	13,969
Excess (deficiency) revenue over expenses	\$ 116,076	\$ (40,115)	\$ (38,129)	\$ (29,590)	\$ (2,307)	\$ 5,570

Electrical Services	Wastewater Services	Water Services	Natural Gas Legacy Services	Library Services	Statutory Reserves	2011
\$ -	\$ 1,973	\$ 1,388	\$ -	\$ -	\$ -	\$ 107,662
29,812	13,710	7,022	4,993	793	29	121,598
142	263	78	-	-	1,317	5,854
-	1,516	595	-	-	-	10,918
-	400	30	-	-	-	19,842
54	1,013	200	1,249	-	-	4,179
-	-	-	-	-	-	479
30,008	18,875	9,313	6,242	793	1,346	270,532
70	2,631	1,962	-	21	-	64,941
1,731	516	645	-	135	-	42,906
-	-	-	-	-	-	20,417
21,031	561	606	-	25	-	43,278
-	565	385	-	-	-	7,096
1,407	2,724	654	-	-	-	35
-	(6)	(19)	-	-	-	(2,055)
-	-	-	-	-	-	3,373
3	242	391	-	28	-	4,849
1,118	8,496	4,464	1,600	172	-	56,348
25,347	15,729	9,088	1,600	381	-	241,188
-	3,113	494	2,896	215	-	10,125
25,347	18,842	9,582	4,496	596	-	251,313
\$ 4,661	\$ 33	\$ (269)	\$ 1,746	\$ 197	\$ 1,346	\$ 19,219

Schedule 3- Long Term Debt

For the Year Ended December 31, 2012 (in thousands of dollars)

Long Term Debt - General Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance Dec 31, 2012	Sinking Fund Balance Dec 31, 2012	Amount of Issue	Current Interest Rate %
Public Works					
2019	South Pandosy Spec Area 1	\$ 108	\$ 126	234	5.99
2019	South Pandosy Spec Area 2	189	221	410	5.99
2019	Automated Curb Side Carts	3,559	1,251	4,810	4.13
2021	Downtown Parkade	1,109	,091	2,200	4.43
2022	Chapman Parkade	2,523	1,548	4,071	5.37
2028	DCC Roads 6	723	3,677	10,400	5.15
Local Improvements					
2014	Local Improvements	85	482	567	5.00
2016	Local Improvements	112	281	393	4.00
2016	Local Improvements	77	192	269	4.43
2017	Local Improvements	19	35	54	4.82
2019	Local Improvements	32	37	69	3.15
Recreation and Cultural					
2021	Kokanee Gym Facility	285	215	500	5.69
2027	H ₂ O Centre	22,499	5,001	27,500	4.82
2027	Kokanee Gymnastic	654	146	800	4.82
2028	H ₂ O Centre	1,712	288	2,000	5.15
Total Debt General Fund		\$ 39,686	\$ 14,591	\$ 54,277	

Long Term Debt - Wastewater Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance Dec 31, 2012	Sinking Fund Balance Dec 31, 2012	Amount of Issue	Current Interest Rate %
Specified Area Programs					
2015	Spec. Area 17 - Mission Flats	\$ 295	\$ 1,055	\$ 1,350	4.75
2018	Spec. Area 18 - Caramillo	55	80	135	4.65
2018	Spec. Area 19 - Poplar Point	31	46	77	4.65
2022	Spec. Area 22A - Gerstmar	24	15	39	6.06
2024	Spec. Area 21A - McKenzie Bench	960	390	1,350	4.98
2024	Spec. Area 22B - Vista Rd	57	22	79	4.98
2024	Spec. Area 22C - Hein Rd	189	77	266	4.98
2024	Spec. Area 22D - Elwyn Rd	106	43	149	4.98
2024	Spec. Area 22E - Dease Rd	68	28	96	4.98
2024	Spec. Area 22F - Mills Rd	244	98 3	42	4.98
2024	Spec. Area 29 - Campion Cambro	622	252	874	4.98
2024	Spec. Area 30 - Acland	259	105	364	4.98
2025	Spec. Area 20 - North Rutland	5,012	1,810	6,822	4.17
2025	Spec. Area 28A - Okaview	469	169	638	4.17
2028	Spec Area 26 - Fisher Rd	1,733	288	2,021	5.15
2028	Spec Area 34 - Country Rhodes	373	62	435	5.15
2028	Spec Area 36 - Clifton	229	38	267	5.15
Sewer Improvement Programs					
2014	Glenwood Sewer Main Replacement	16	74	90	3.15
2014	Long St. Sewer Main Replacement	11	53	64	3.15
2019	Byrns Baron Main	2,155	1,711	3,866	4.98
Sewage Treatment Plant					
2014	Sewer Treatment Plant Phase III	1,424	6,576	8,000	5.99
2019	Waste Water Treatment Expansion	14,800	5,200	20,000	4.90
2019	Waste Water Treatment Expansion	7,400	2,600	10,000	4.13
2020	Waste Water Treatment Expansion	8,302	1,698	10,000	4.00
2031	Brandt's Creek Tradewaste Treatment	3,610	190	3,800	4.00
Total Debt Wastewater Fund		\$ 48,444	\$ 22,680	\$ 71,124	

Long Term Debt - Water Fund

Debenture Debt

Year of Maturity	Purpose	Debt Balance Dec 31, 2012	Sinking Fund Balance Dec 31, 2012	Amount of Issue	Current Interest Rate %
Specified Area Programs					
2023	Spec. Area 16 - Byrns	\$ 26	\$ 13	\$ 39	4.78
2024	Spec. Area 18 - Lakeshore	17	7	24	4.98
2028	Spec. Area 26 - Fisher Rd	255	42	297	5.15
Water Improvement Programs					
2028	Cedar Creek Pump Station	6,496	1,081	7,577	5.15
2031	Poplar Point Pump Station Upgrade	1,934	66	2,000	4.00
Total Debt Water Fund		\$ 8,728	\$ 1,209	\$ 9,937	

Long Term Debt - Airport Fund

Debenture Debt

2018	Airport Expansion	\$ 10,341	\$ 5,659	\$ 16,000	4.65
Total Debt Airport Fund		\$ 10,341	\$ 5,659	\$ 16,000	

Long Term Debt - Natural Gas Legacy Fund

Debenture Debt

2018	Leased Capital Assets	\$ 14,165	\$ 15,635	\$ 29,800	4.43
2018	Leased Capital Assets	9,269	10,231	19,500	4.43
		\$ 23,434	\$ 25,866	\$ 49,300	
Capital Lease Payable		2,331		2,396	10.072
Total Debt Natural Gas Legacy Fund		\$ 25,765		\$ 51,696	

Long Term Debt - Library

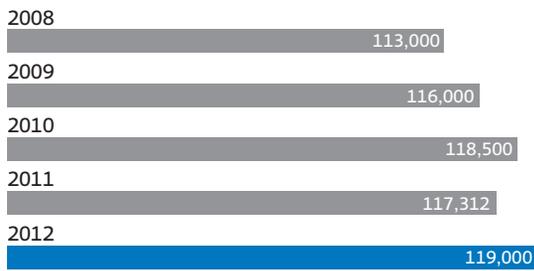
2017 Mortgage - Building		\$ 1,949		\$ 5,100	8.94
Total Debt Library Fund		\$ 1,949		\$ 5,100	

Grand Total Long Term Debt

\$ 134,913	\$ 70,005	\$ 208,134
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2008 TO 2012 STATISTICAL REVIEW

Population



Note: 2011 reflects the official census data

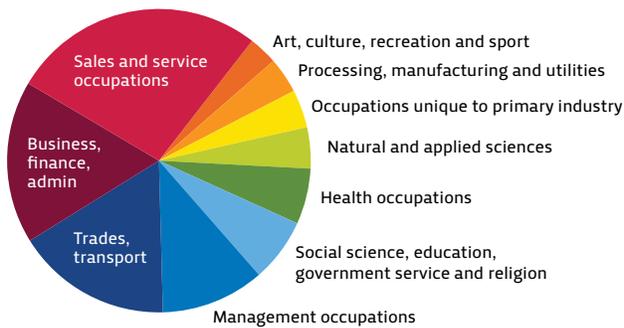
Age of Population



Source: 2011 Census

Occupation

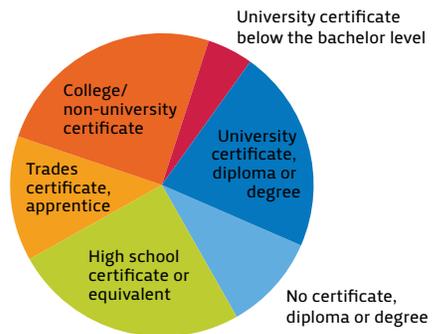
labour force 15 years and over



Source: 2006 Canada Census

Education

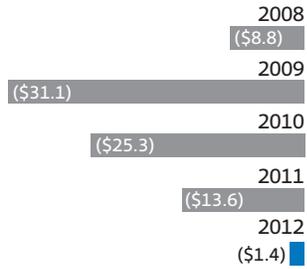
population aged 25-64



Source: 2006 Canada Census

Net Financial Assets (Liabilities)

millions



Source: City of Kelowna Financial Services

Accumulated Surplus

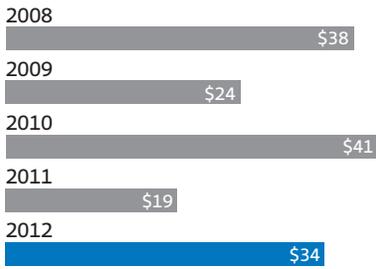
billions



Source: City of Kelowna Financial Services

Annual Surplus

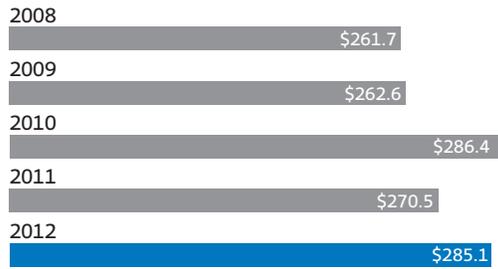
millions



Source: City of Kelowna Financial Services

Consolidated Revenues

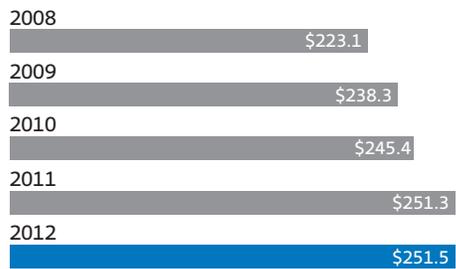
thousands



Source: City of Kelowna Financial Services

Consolidated Expenses

millions



Source: City of Kelowna Financial Services

Consolidated Revenues*millions*

	2008	2009	2010	2011	2012
Fees & charges	\$ 118.7	\$ 121.5	\$ 126.3	\$ 121.6	\$ 129.7
Taxation	94.8	100.6	103.9	107.6	110.5
Contributions from other governments	24.5	22.2	33.6	19.8	17.6
DCC contributions	14.3	12.2	15.4	10.9	17.9
Interest earned	7.2	4.1	4.7	5.8	5.3
Other	2.2	2.1	2.6	4.2	2.9
Gain on disposal of tangible capital assets	-	-	-	.5	1.3
Total	\$ 261.7	\$ 262.7	\$ 286.4	\$ 270.5	\$ 285.1

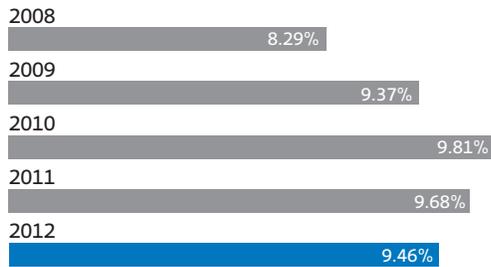
Consolidated Expenses by Function*millions*

	2008	2009	2010	2011	2012
General Government Services	\$ 13.7	\$ 14.1	\$ 16.3	\$ 19.9	\$ 17.1
Protective Services	37.8	40.1	39.6	43.3	43.1
Transportation Services	32.5	32.4	34.4	30.7	30.3
Recreation & Cultural Services	29.0	29.8	30.4	29.5	30.2
Other Services	15.6	18.8	16.9	16.2	15.5
Airport Operations	8.4	9.0	8.6	9.4	10.2
Electrical Utility	19.0	20.7	21.4	22.2	24.4
Wastewater Utility	7.5	8.2	8.7	8.6	8.5
Water Utility	4.8	5.3	4.9	5.1	4.8
Amortization On Tangible Capital Assets	47.2	50.6	53.2	56.3	57.3
Debt Charges	7.6	9.1	9.9	10.1	10.1
Loss On Tangible Capital Asset Disposal	-	0.1	1.1	-	-
Total	\$ 223.1	\$ 238.3	\$ 245.4	\$ 251.3	\$ 251.5

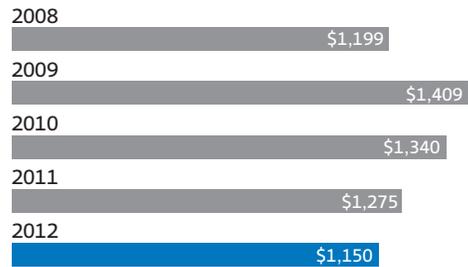
Consolidated Expenses by Object*millions*

	2008	2009	2010	2011	2012
Salaries & Benefits	\$ 55.8	\$ 59.5	\$ 61.7	\$ 64.9	\$ 65.7
Amortization of Tangible Capital Assets	47.2	50.6	53.2	56.4	57.3
Materials & Supplies	44.0	44.2	47.7	43.3	45.3
Contract & Professional Services	39.8	44.2	40.5	42.9	43.9
Rcmp Contract	16.2	17.2	17.2	20.4	20.1
Debt Interest & Fiscal Services	7.6	9.1	9.9	10.1	10.2
Equipment	5.8	6.3	7.6	7.1	6.7
Utilities	4.9	5.5	5.8	4.9	3.6
Grants And External Transfers	3.0	3.3	4.1	3.4	3.3
Allocations	0.1	(0.1)	-	-	.04
Loss On Disposal of Tangible Capital Assets	-	0.1	1.1	-	-
Cost Recoveries	(1.3)	(1.6)	(3.5)	(2.1)	(4.5)
Total	\$ 223.1	\$ 238.3	\$ 245.4	\$ 251.3	\$ 251.5

Consolidated Debt Charges as a Percentage of Taxation

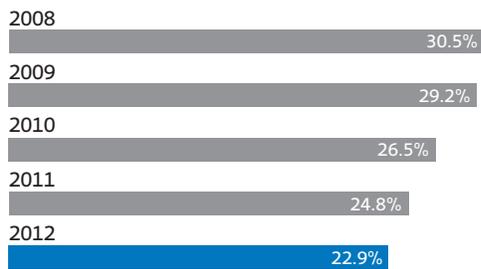


Consolidated Long Term Debt Per Capita

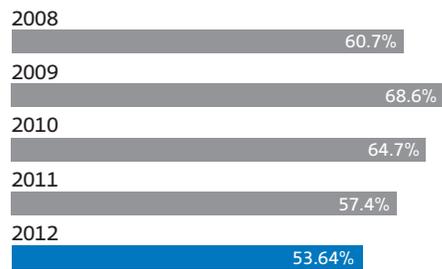


Source: City of Kelowna Financial Services

General Debenture Debt Charges as a Percentage of Total General Expenditures

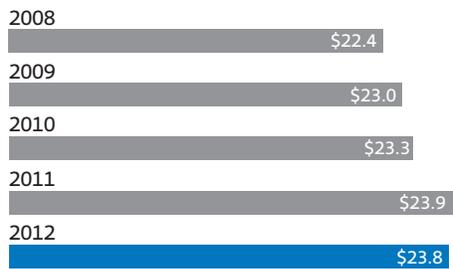


Consolidated Debt as a Percentage of Total General Expenditures



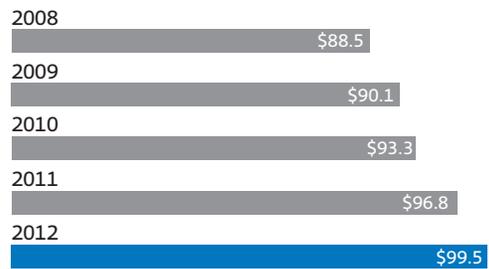
Assessment for General Taxation

billions



Taxation Demand

millions



Source: City of Kelowna Financial Services

Tax Collected

millions

	2008	2009	2010	2011	2012
City of Kelowna	\$ 88.5	\$ 90.1	\$ 93.2	\$ 95.8	\$ 98.2
School Tax	59.3	62.4	63.4	66.3	65.0
Regional Hospital	7.0	7.5	9.0	9.6	10.2
Regional District	8.1	8.6	8.9	9.2	9.3
BC Assessment	1.8	2.0	2.1	2.0	1.9
Total Property Tax Collected	\$ 164.7	\$ 170.5	\$ 176.6	\$ 182.9	\$ 184.6

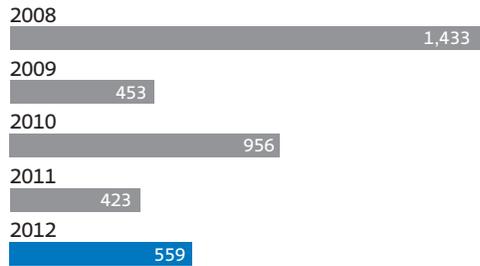
Total Levies

millions

	2008	2009	2010	2011	2012
City of Kelowna	\$ 88.5	\$ 90.1	\$ 93.2	\$ 96.8	\$ 99.5
School Tax	59.3	62.4	63.4	66.9	65.8
Regional Hospital	7.0	7.5	9.0	9.6	10.3
Regional District	8.1	8.6	8.9	9.2	9.5
BC Assessment	1.8	2.0	2.1	2.0	1.9
Total Property Tax Levies	\$ 164.7	\$ 170.5	\$ 176.6	\$ 184.5	\$ 187.1

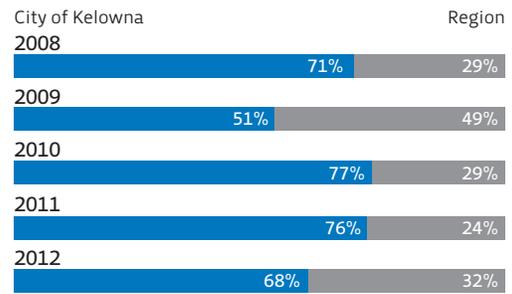
Source: City of Kelowna Financial Services

Housing Starts



Source: City of Kelowna Development Services

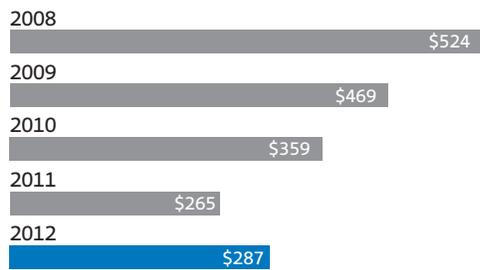
Regional Housing Starts



Source: City of Kelowna Policy & Planning

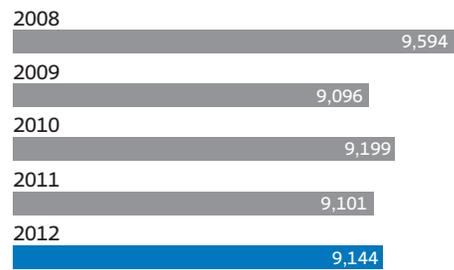
Value of New Developments

millions



Source: City of Kelowna Development Services

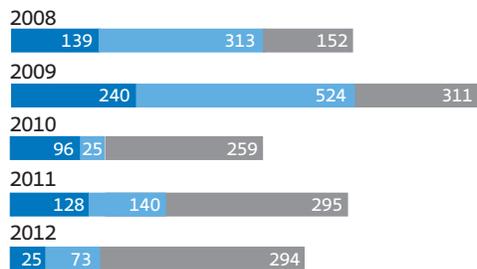
Business Licences



Source: City of Kelowna Development Services

Development Floor Space

square footage (thousands)



Source: City of Kelowna Development Services

WE ARE OUTSTANDING

The City of Kelowna is extending its sincere congratulations to all nominees and recipients of this year's 38th Annual Civic & Community Awards.

Teen Honour in the Arts

Quinn Bates

Honour in the Arts

Anna Jacyszyn

Young Female of the Year

Kelsi Taron

Young Male of the Year

Eli McAlpine

The Central Okanagan Foundation
Volunteer Organization of the Year

Karis Support Society

Woman of the Year - Sarah Donald
Treadgold Memorial Award

Shaun Bos

Man of the Year - Fred Macklin Memorial Award

Ken Thompson

Corporate Community of the Year
Small to Medium Business
Large Business

Loyal Hair Therapy

Interior Savings Credit Union

Champion for the Environment

Individual

Michael Ross

Business

Best Western Plus Kelowna Hotel & Suites

Bob Giordano Memorial Award

Hal Hennenfent

Athletic Team of the Year

OKM Senior Boy's Soccer Team

Bryan Couling Memorial Award

Augie Ciancone Memorial Award

Female

Olivia Johnson

Male

Ryan Linttell

Athlete of the Year

Female

Jen Woods

Male

Rostam Turner

Anita Tozer Memorial Award

Tim Schroeder



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