
CITY OF KELOWNA

MEMORANDUM

Date: April 29, 2008
File No.: 1830-20 and 0540-20
To: City Manager
From: Mayor Shepherd, Chair, Audit Committee
Subject: Financial Statements for the Year Ending December 31, 2007
Report Prepared by: Financial Accounting Manager

RECOMMENDATION:

THAT the Statement of Financial Position, Statement of Financial Activities and Auditor's Report, for the City of Kelowna, for the year ending December 31, 2007 be received

AND THAT Council approves the appropriation of \$1,950,000 of surplus generated from all general fund operations in 2007 to general reserves as detailed in the report from the Mayor, dated April 29, 2008

AND FURTHER the Statement of Financial Position, Statement of Financial Activities and Auditor's Report be reprinted in and form part of the City of Kelowna's annual report.

BACKGROUND:

A detailed review of draft City of Kelowna Financial Statements for the year ending December 31, 2007 was undertaken on April 29, 2008 by the Audit Committee, the City of Kelowna Auditor, Grant Thornton LLP, and Financial Services staff.

City Administration has recommended the appropriation to reserves of 2007 surplus generated from all general fund operations, in the amount of \$1,950,000, in addition to those amounts that are normally appropriated through the budget process. The Audit Committee is in agreement with reasons provided for the appropriation. This results in an unappropriated surplus for 2007 of \$126,500 and an accumulated surplus balance of \$1.2 Million, equivalent to approximately 1.5% of taxation.



The general reserves appropriations recommended are:

Arterial Roads Reserve	\$ 650,000
Non-Arterial Roads	250,000
Future Overlays	100,000
Snow Removal	200,000
Civic Facilities	200,000
Parks Purchase & Dev't	200,000
Financial Major Systems	200,000
Downtown Streetscape	<u>150,000</u>
	<u>\$1,950,000</u>

LEGAL/STATUTORY AUTHORITY:

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

FINANCIAL/BUDGETARY CONSIDERATIONS:

The Financial impact is that \$1.95 million will be transferred from surplus to general reserves.

Considerations that were not applicable to this report:

INTERNAL CIRCULATION TO:

LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:

EXISTING POLICY:

PERSONNEL IMPLICATIONS:

TECHNICAL REQUIREMENTS:

EXTERNAL AGENCY/PUBLIC COMMENTS:

ALTERNATE RECOMMENDATION:


Sharon Shepherd
Mayor

Approved for Inclusion:



Encls.

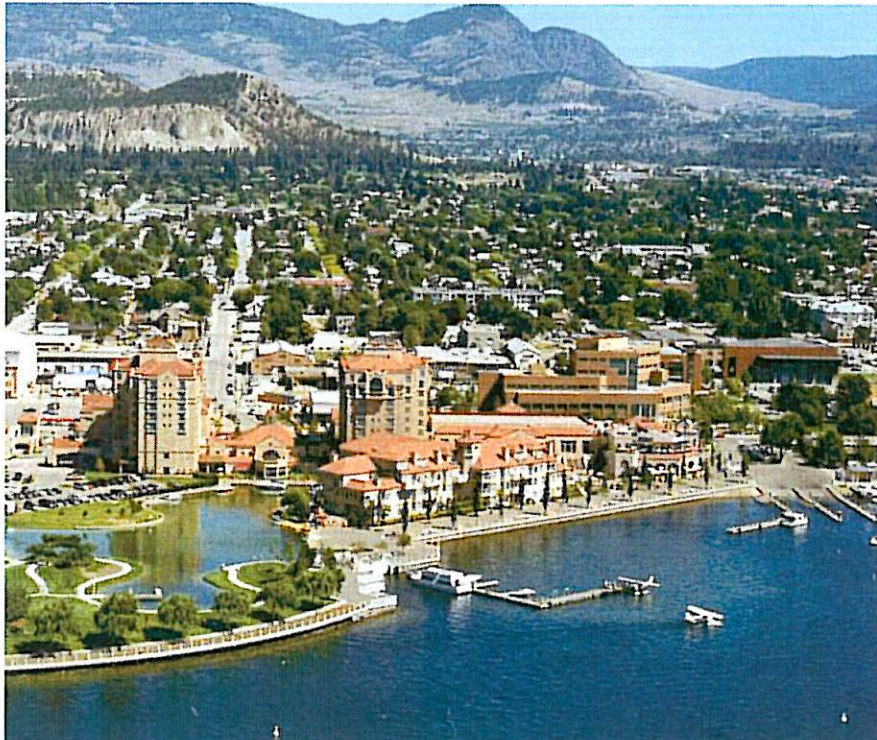
- c.c. Councillor R. Hobson - Audit Committee
- Councillor N. Letnick - Audit Committee
- Director of Financial Services & Interim Director of Planning & Development Services
- Financial Accounting Manager
- Grant Thornton LLP - Auditor
- Mr. Jim Grant, M.B.A., C.A.



CITY OF KELOWNA

FINANCIAL STATEMENTS

DECEMBER 31, 2007



CITY OF KELOWNA

INDEX TO FINANCIAL STATEMENTS

	Page
Financial Section	
Auditors' Report.....	2
Consolidated Statement of Financial Position.....	3
Consolidated Statement of Financial Activities.....	4
Consolidated Statement of Changes in Financial Position	5
Consolidated Statement of Statutory Reserve Funds	6
Consolidated Statement of Reserves and Surplus	7
Consolidated Statement of Equity in Capital Assets	7
Notes to the Consolidated Financial Statements	8
Supplementary Financial Information	
Auditors' Report on Supplementary Financial Information	13
Statement of Financial Position – by Fund.....	14
Statement of Financial Activities – by Fund.....	16
Statement of Reserves and Surplus – by Fund	18
Statement of Equity in Capital Assets – by Fund	18
Debtenture Debt – General Fund	20
Debtenture Debt – Wastewater Fund.....	21
Debtenture Debt – Water and Natural Gas Legacy Funds	22
Reserves and Surplus – 5 Year Comparison	23
Capital Expenditures and Funding Sources	24
Consolidated Expenditures by Function and Object	26
Schedule of Receipts and Disbursements of Federal Gas Tax	28

Auditors' report

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To the Members of Council of the City of Kelowna

We have audited the consolidated statement of financial position of the City of Kelowna as at December 31, 2007 and the consolidated statements of financial activities, changes in financial position, statutory reserve funds, reserves and surplus and equity in capital assets for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City of Kelowna as at December 31, 2007 and the results of its financial activities and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Kelowna, BC

March 17, 2008

Grant Thornton LLP
Chartered accountants

Partners

Kevin Crookes, CA, CBV
Paul F. Gallo, CA
Mike Gilmore, CA, CFP
James R. Grant, CA
Bill McTavish, CGA, CA
Dan Vass, CA
J. Kim Ward, CA, CFP
Bill Winlers, CA, CFP

CITY OF KELOWNA

Consolidated Statement of Financial Position

As at December 31, 2007

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
Financial Assets		
Cash and temporary investments	\$ 194,423	\$ 177,375
Accounts receivable	26,951	23,261
Accrued interest	1,208	941
Land held for resale	817	838
Long term investments	6,000	6,000
Municipal Finance Authority debt reserve deposit	6,289	5,197
Other	2,106	1,370
	<u>237,794</u>	<u>214,982</u>
Liabilities		
Accounts payable	42,242	30,278
Performance deposits	5,500	4,199
Deferred revenue	25,024	27,883
Deferred development cost charges	43,809	41,759
Municipal Finance Authority debt reserve	6,289	5,197
Long term debt	103,580	79,281
	<u>226,444</u>	<u>188,597</u>
Net Financial Assets	<u>11,350</u>	<u>26,385</u>
Non Financial Assets		
Inventory	1,454	1,001
Work in progress	133,960	114,115
Capital	957,960	868,600
	<u>1,093,374</u>	<u>983,716</u>
Net Financial Position	<u>\$ 1,104,724</u>	<u>\$ 1,010,101</u>
Fund Position		
Operating surplus	11,207	9,081
Reserves for future expenditures	69,800	63,145
Statutory reserve funds	31,786	30,893
Fund Balance	112,793	103,119
Equity in capital assets	991,931	906,982
	<u>\$ 1,104,724</u>	<u>\$ 1,010,101</u>

See accompanying notes to the financial statements.



Paul Macklem, CMA
Director of Financial Services



Sharon Shepherd
Mayor, City of Kelowna

CITY OF KELOWNA

Consolidated Statement of Financial Activities For the Year Ended December 31, 2007 (in thousands of dollars)

	Budget <u>2007</u>	Actual <u>2007</u>	Actual <u>2006</u>
Revenue			
Taxation	\$ 86,258	\$ 86,504	\$ 80,943
Fees and charges	90,081	104,532	94,291
Interest earned	4,580	6,099	6,196
DCC contributions	44,707	22,259	27,132
Contribution from other governments	35,500	23,488	19,957
Other capital contributions	-	2,921	5,298
	<u>261,126</u>	<u>245,803</u>	<u>233,817</u>
Expenditures			
General government services	15,950	14,330	11,121
Protective services	34,792	35,173	32,438
Transportation services	86,396	75,561	67,498
Recreational and cultural services	91,405	47,500	43,970
Other services	18,182	17,269	29,169
Airport operations	29,686	14,988	14,573
Electrical utility	25,192	25,181	20,522
Wastewater utility	91,533	19,937	13,387
Water utility	19,876	6,509	10,875
Debt charges	6,532	6,133	6,230
	<u>419,544</u>	<u>262,581</u>	<u>249,783</u>
Net expenditure	(158,418)	(16,778)	(15,966)
Debt issuance	97,859	29,867	-
Transfer (to) from other funds	-	507	-
Debt repayment	<u>(4,045)</u>	<u>(3,922)</u>	<u>(4,050)</u>
Increase (decrease) in fund balance	\$ <u>(64,604)</u>	\$ 9,674	\$ (20,016)
Consolidated fund balance, beginning of year		103,119	123,135
Consolidated fund balance, end of year		\$ <u>112,793</u>	\$ <u>103,119</u>

See accompanying notes to the financial statements.

CITY OF KELOWNA

Consolidated Statement of Changes in Financial Position For the Year Ended December 31, 2007

(in thousands of dollars)

	Actual 2007	Actual 2006
Net cash inflow (outflow) from operating activities		
Net Expenditure	\$ (16,778)	\$ (15,966)
Items not affecting cash - transfers between funds	<u>70,452</u>	<u>105,519</u>
	<u>53,674</u>	<u>89,553</u>
 Decrease (increase) in non-cash financial assets		
Accounts receivable	(3,957)	6,674
Other assets	<u>(1,807)</u>	<u>123</u>
 Increase (decrease) in short term financial liabilities		
Accounts payable	11,964	4,689
Deferred development cost charges	2,050	(11,599)
Other liabilities	<u>(466)</u>	<u>(2,527)</u>
	<u>61,458</u>	<u>86,913</u>
 Financing		
Issuance of long term debt	29,867	-
Contributions and grants	12,042	6,861
Repayment of long term debt	<u>(3,922)</u>	<u>(4,050)</u>
	<u>37,987</u>	<u>2,811</u>
 Investing		
Proceeds on sale of capital assets	122	-
Purchase of capital assets	(82,066)	(112,224)
Decrease (increase) in inventory	<u>(453)</u>	<u>13</u>
	<u>(82,397)</u>	<u>(112,211)</u>
 Net cash (outflow) inflow	17,048	(22,487)
 Cash position, beginning of year	177,375	199,862
 Cash position, end of year	\$ <u>194,423</u>	\$ <u>177,375</u>
 Cash and temporary investments	\$ <u>194,423</u>	\$ <u>177,375</u>

See accompanying notes to the financial statements.

CITY OF KELOWNA

Consolidated Statement of Statutory Reserve Funds

For the Year Ended December 31, 2007

(in thousands of dollars)

	Capital Works Mach and Equip 2007	Land Sales Reserve 2007	Parking 2007	Total Actual 2007	Total Actual 2006
Sources of Funds					
Return on Investment	\$ 964	\$ 199	\$ 77	\$ 1,240	\$ 1,341
Contributions from Developers	676	-	-	676	682
Proceeds from land sales	-	2,347	-	2,347	5,298
Transfers from General Fund	5,063	-	619	5,682	6,724
Transfers from Wastewater Fund	25	-	-	25	126
Transfers from Water Fund	76	-	-	76	239
	<u>6,804</u>	<u>2,546</u>	<u>696</u>	<u>10,046</u>	<u>14,410</u>
Uses of Funds					
Transfers to General Fund	5,684	1,871	1,481	9,036	21,321
Transfers to Wastewater Fund	45	-	-	45	33
Transfers to Water Fund	72	-	-	72	-
	<u>5,801</u>	<u>1,871</u>	<u>1,481</u>	<u>9,153</u>	<u>21,354</u>
Change in reserve fund balance	1,003	675	(785)	893	(6,944)
Balance, beginning of year	24,355	4,661	1,877	30,893	37,837
Balance, end of year	<u>\$ 25,358</u>	<u>\$ 5,336</u>	<u>\$ 1,092</u>	<u>\$ 31,786</u>	<u>\$ 30,893</u>

See accompanying notes to the financial statements.

CITY OF KELOWNA

Consolidated Statement of Reserves and Surplus For the Year Ended December 31, 2007

(in thousands of dollars)

	Actual <u>2007</u>	Actual <u>2006</u>
Reserves for future expenditures	\$ <u>69,800</u>	\$ <u>63,145</u>
Surplus		
Balance, beginning of year	9,081	19,435
Add:		
Transfer from reserve for future expenditures	29,085	31,892
Increase (decrease) in fund balances	8,781	(13,072)
Deduct:		
Transfer to reserve for future expenditures	<u>35,740</u>	<u>29,174</u>
Balance, end of year	<u>11,207</u>	<u>9,081</u>
Fund balance, end of year	\$ <u><u>81,007</u></u>	\$ <u><u>72,226</u></u>

Consolidated Statement of Equity in Capital Assets For the Year Ended December 31, 2007

(in thousands of dollars)

	Actual <u>2007</u>	Actual <u>2006</u>
Balance, beginning of year	\$ <u>906,982</u>	\$ <u>791,254</u>
Contributions to capital assets		
Operating funds	35,537	55,803
Other trust funds	3,758	2,786
Statutory reserve funds	8,554	20,439
Public	177	66
Federal government	923	895
Provincial government	8,039	4,558
Development cost charge contribution	22,053	26,335
Developers	2,903	1,342
Proceeds on sale of capital assets	<u>122</u>	<u>-</u>
	<u>82,066</u>	<u>112,224</u>
Debt retirement		
Retirement of debt	3,922	4,050
Retirement of short-term debt	-	156
Actuarial increase in sinking funds	<u>1,646</u>	<u>1,331</u>
	<u>5,568</u>	<u>5,537</u>
Asset disposal at original cost	<u>(2,685)</u>	<u>(2,033)</u>
Balance, end of year	\$ <u><u>991,931</u></u>	\$ <u><u>906,982</u></u>
Capital asset additions		
Contributions to capital assets	\$ <u>82,066</u>	\$ <u>112,224</u>
Debt Issuance	<u>29,867</u>	<u>-</u>
Total capital assets acquired	<u>111,933</u>	<u>112,224</u>
Assets disposal at original cost	<u>(2,685)</u>	<u>(2,033)</u>
Increase in capital assets	\$ <u><u>109,248</u></u>	\$ <u><u>110,191</u></u>

See accompanying notes to the financial statements.

City of Kelowna
Notes to the Consolidated Financial Statements
December 31, 2007

(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 conformity with accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

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 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 and the Festivals and Special Events Development Society of Kelowna are controlled by the City of Kelowna through its appointment of the members of the respective societies. Accordingly, the consolidated financial statements include all the accounts of the societies.

Accrual accounting

The accrual method for reporting revenues and expenditures 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.

Capital assets

The City records physical assets including assets held under capital lease at cost in the period they were acquired on the statement of financial position and as expenditures within the statement of financial activities.

All capital assets are valued at cost and written off when they are disposed of.

During the period 1974 to 1995, all Airport capital additions were the responsibility of the Federal Government Ministry of Transport and therefore are not reflected in these financial statements. In 1996, the City commenced financing some of the capital additions. Those additions funded by the City are reflected in these financial statements and valued at cost.

Amortization

In accordance with the accounting principles accepted for local governments in British Columbia, no provision has been made for amortization.

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.

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.

Financial instruments

The City's financial instruments consist of cash and temporary investments, accounts receivable, accrued interest, long term investments, accounts payable and long term debt. Unless otherwise noted, it is management's opinion that the City is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying value, unless otherwise noted.

Revenues

Revenue is recorded on the accrual basis and recognized when earned. Amounts that have been received in advance

City of Kelowna
Notes to the Consolidated Financial Statements
December 31, 2007

(all tabular amounts reported in 000's of dollars)

of services being rendered are recorded as deferred revenue until the City discharges the obligations that led to the collection of funds.

Expenditures

Expenditures 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. Significant areas requiring the use of management estimates relate to the determination of landfill post closure costs and settlement costs associated with outstanding legal actions. Actual results could differ from the estimates and adjustments, if any, will be reflected in the operations in the year of settlement.

Budget figures

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.

2. Financial Assets and Liabilities

Cash and temporary investments

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

<u>Type of Investments</u>	<u>2007</u>	<u>2006</u>
Cash	\$25,988	\$40,272
Municipal Finance Authority Bond / Money Market Funds	-	34,993
Provincial and Bank Issued Accrual Notes and Debentures	166,437	100,112
Guaranteed Investment Certificates and Term Deposit Notes	1,998	1,998
Total Cash and temporary investments	<u>\$194,423</u>	<u>\$177,375</u>

Accounts Receivable

Accounts receivable are recorded net of allowance and comprise:

<u>Type of Receivables</u>	<u>2007</u>	<u>2006</u>
Property Tax	\$3,163	\$3,488
Trade Receivables	9,473	7,150
Due from Federal Government	1,544	1,552
Due from Provincial Government	2,056	2,159
Due from Regional Government	91	564
Utilities	4,736	4,772
Deferred Development Cost Charges	5,888	3,576
Total Accounts Receivable	<u>\$26,951</u>	<u>\$23,261</u>

Deferred Development Cost Charges (DCC)

The City collects development cost charges to pay for a proportionate share of infrastructure related to new growth. In accordance with the Community Charter of BC, these funds must be deposited into a separate reserve fund. When the related costs are incurred, the DCCs are recognized as revenue. Because these funds are restricted in nature they are shown as a liability.

<u>Deferred DCC by Type</u>	<u>2007</u>	<u>2006</u>
Roads	\$9,057	\$10,813
Parks	10,177	7,134
Drainage	3,068	2,942
Wastewater	12,477	12,955
Water	9,030	7,915
Total Deferred DCC	<u>\$43,809</u>	<u>\$41,759</u>

<u>Deferred DCC</u>	<u>2007</u>	<u>2006</u>
Balance, beginning of year	<u>\$41,759</u>	<u>\$53,358</u>
Return on Investments	1,720	1,631
DCC levied in the year	<u>23,168</u>	<u>13,901</u>
	<u>24,888</u>	<u>15,532</u>
Transfers to General Capital	(16,459)	(25,106)
Transfers to Wastewater Capital	(5,358)	(554)
Transfers to Wastewater Operating	(785)	(798)
Transfers to Water Capital	(236)	(673)
	<u>(22,838)</u>	<u>(27,131)</u>
Balance, end of year	<u>\$43,809</u>	<u>\$41,759</u>

Debenture debt

Debenture debt principal is reported net of sinking fund balances. Interest rates on debenture debt ranged from 3.15% to 10.25%. The weighted average rate for 2007 was 5.12% (2006 – 5.43%). Principal repayments for the next five years (in thousands of dollars) are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund	\$1,291	\$1,291	\$1,291	\$1,265	\$1,195
Wastewater Fund	1,442	1,442	1,275	1,243	998
Water Fund	224	224	217	191	91
Nat. Gas Legacy	1,699	1,699	1,699	1,699	1,699
Library Society	249	272	297	324	354
	<u>\$4,905</u>	<u>\$4,928</u>	<u>\$4,779</u>	<u>\$4,722</u>	<u>\$4,337</u>

Debt as a percentage of total expenditures:

<u>2007</u>	<u>2006</u>	<u>2005</u>
39.40%	31.73%	41.73%

City of Kelowna
Notes to the Consolidated Financial Statements
December 31, 2007

(all tabular amounts reported in 000's of dollars)

Short Term Debt

Total short term debt of \$1.6 million (\$nil – 2006) is to be repaid over the next 5 years. The amount of the principal repayment is \$315,500 per year. Interest is to be paid annually at prime rate on the outstanding balance.

3. Capital Assets and Work in Progress

	2007 Work in Progress	2007 Capital Assets	2006 Work in Progress	2006 Capital Assets
Land	\$ -	\$147,959	\$ -	\$137,793
Buildings	38,718	99,250	24,125	91,115
Engineering Structures	93,021	591,737	89,990	524,441
Machinery and Equipment	2,220	63,405	-	59,642
N Gas System (capital lease)	-	55,609	-	55,609
	<u>\$133,959</u>	<u>\$957,960</u>	<u>\$114,115</u>	<u>\$868,600</u>

Transitional Provisions

Effective January 1, 2007, The City adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants ("CICA") with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 – Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009.

During 2007, the City continued to work towards compliance with the new recommendations for accounting for tangible capital assets. As of December 31, 2007, the City has not yet completed a listing of individual capital assets and values for the asset classes. The accumulation of data is currently underway and is expected to be completed by September 30, 2008.

4. Contingent liabilities

Regional District of Central Okanagan

Regional District debt is, under the provisions of the Community Charter, 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 pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 144,000 active members and approximately 51,000 retired members. Active members include approximately 35,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2006 indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in mid 2010. The actuary does not attribute portions of the surplus to individual employers. The City of Kelowna paid \$3.4 million for employer contributions to the plan in fiscal 2007. Employee contributions were \$2.8 million.

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.

5. 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, 2007 which have not been recorded in the accounts. Due to an update to the Peoplesoft system in the previous year, 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.

City of Kelowna
Notes to the Consolidated Financial Statements
December 31, 2007

(all tabular amounts reported in 000's of dollars)

Landfill closure and post closure costs

As recommended by the Public Sector Accounting Board (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 \$2.8 million (2006 - \$2.8 million) represents the portion of the estimated total expenditure recognized as at December 31, 2007. 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 7.0 million tonnes, which is 89% of the site's total capacity. The discounted future cash flows for closure and post-closure cost is estimated at \$47.0 million as at December 31, 2007. The landfill site is expected to reach its capacity in 2048.

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. As at December 31, 2007 the outstanding loan balance was \$403,750.

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 2007 represented year 8 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:

Year 6	\$13.2 million
Year 11	\$11.9 million
Year 16	\$10.4 million
Year 21	\$6.7 million
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 the lump sum payment of \$13.2 million otherwise due to RG Arenas (Kelowna) Ltd. in year 6.

Mission Recreation Park Sports Centre

The City has under the terms of the design build contract with RG Construction (Mission) Ltd. agreed to pay \$16.6 million for the construction of a sports facility. As at December 31, 2007 there was an outstanding commitment of \$227,800. This will become due as the project is completed.

City of Kelowna
Notes to the Consolidated Financial Statements
December 31, 2007

(all tabular amounts reported in 000's of dollars)

Mission Recreation Park Aquatic Centre

The City has under the terms of the pre-load and design build contract with PCL Constructors Westcoast Inc. agreed to pay \$42.6 million for the construction of an aquatic facility. As at December 31, 2007 there was an outstanding commitment of \$30.4 million. This will become due as the project is completed which is estimated to be in early 2009.

6. 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 5.

7. 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 \$46.0 million (2006 - \$36.5 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 \$46.0 million, the City is holding irrevocable Letters of Credit in the amount of \$5.7 million (2006 - \$4.6 million) which are received from developers to ensure payment of development cost charges in future years.

8. Capital lease payable

The City has entered into an agreement with Terasen Gas Inc. 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 Terasen Gas Inc. 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 \$2.5 million, which is included in long term debt, will be paid with annual lease payments of \$260,870 including interest based on Terasen approved pre-tax weighted average cost of capital of 10.072%.

Operating lease

The City also entered into a 17 year operating lease with Terasen Gas Inc. on November 1, 2001 whereby the City leases back to Terasen Gas Inc. the operations of the gas distribution system. Under the operating lease Terasen Gas Inc. 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 Terasen Gas Inc. 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 \$24.4 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 to date are:

2002	\$5.6 million
2003	\$5.3 million
2004	\$5.8 million
2005	\$4.9 million
2006	\$5.4 million
2007	\$5.2 million

9. 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, 2007 the mortgage balance was \$3.4 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.

10. 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, 2007 the Trust Fund balance is \$1.5 million (2006 - \$1.4 million).

11. Prior year's figures

Certain of the prior year's figures have been restated to conform to the presentation format adopted in the current year.



Grant Thornton

Auditors' report on supplementary financial information

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To the Members of Council of the City of Kelowna

We have audited and reported separately herein on the consolidated financial statements of the City of Kelowna as at and for the year ended December 31, 2007.

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements of the City taken as a whole. The supplementary information on the financial position, financial activities of operations of the individual funds and the schedule of receipts and disbursements of Federal Gas Tax for the year ended December 31, 2007 included in the following supporting schedules are presented for the purposes of additional analysis. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Kelowna, BC

March 17, 2008

Grant Thornton LLP

Chartered accountants

Partners

Kevin Crookes, CA, CBV
Paul F. Gallo, CA
Mike Gilmore, CA, CFP
James R. Grant, CA
Bill McTavish, CGA, CA
Dan Vass, CA
J. Kim Ward, CA, CFP
Bill Winters, CA, CFP

Audit • Tax • Advisory

Grant Thornton LLP, A Canadian Member of Grant Thornton International Ltd

CITY OF KELOWNA

Statement of Financial Position - by Fund

As at December 31, 2007

(in thousands of dollars)

	General Fund <u>2007</u>	Airport Fund <u>2007</u>	Electrical Fund <u>2007</u>	Waste- water Fund <u>2007</u>	Water Fund <u>2007</u>
Financial Assets					
Cash and temporary investments	\$ 97,713	\$ 12,588	\$ 481	\$ 9,956	\$ 1,318
Accounts receivable	12,833	2,286	2,756	1,587	661
Accrued interest	1,208	-	-	-	-
Land held for resale	817	-	-	-	-
Long term investments	6,000	-	-	-	-
Municipal Finance Authority debt reserve	1,844	-	-	2,070	258
Other	1,951	121	-	22	12
Due from other funds	5,187	-	3,500	-	-
	<u>127,553</u>	<u>14,995</u>	<u>6,737</u>	<u>13,635</u>	<u>2,249</u>
Liabilities					
Accounts payable	39,187	533	1,650	369	41
Due to other funds	-	8,687	-	-	-
Performance deposits	5,287	213	-	-	-
Deferred revenue	22,000	-	-	3,000	24
Deferred development cost charges	-	-	-	-	-
Municipal Finance Authority debt reserve					
Cash deposits	501	-	-	581	75
Demand notes	1,343	-	-	1,489	183
Long term debt	37,135	-	-	22,035	1,183
	<u>105,453</u>	<u>9,433</u>	<u>1,650</u>	<u>27,474</u>	<u>1,506</u>
Net Financial Assets (Liabilities)	<u>22,100</u>	<u>5,562</u>	<u>5,087</u>	<u>(13,839)</u>	<u>743</u>
Non Financial Assets					
Inventory	1,009	-	235	131	79
Work in progress, at cost	98,978	8,226	5,408	19,922	1,426
Capital	568,243	46,866	36,737	178,931	63,567
	<u>668,230</u>	<u>55,092</u>	<u>42,380</u>	<u>198,984</u>	<u>65,072</u>
Net Financial Position	<u>\$ 690,330</u>	<u>\$ 60,654</u>	<u>\$ 47,467</u>	<u>\$ 185,145</u>	<u>\$ 65,815</u>
Fund Position					
Operating surplus (deficit)	22,779	(8,154)	3,185	(9,539)	(203)
Reserves for future expenditures	36,449	13,716	2,137	15,245	2,253
Statutory reserve funds	-	-	-	-	-
Equity in capital assets	631,102	55,092	42,145	179,439	63,765
	<u>\$ 690,330</u>	<u>\$ 60,654</u>	<u>\$ 47,467</u>	<u>\$ 185,145</u>	<u>\$ 65,815</u>

<u>Nat. Gas</u> <u>Legacy Fund</u> <u>2007</u>	<u>Statutory</u> <u>Reserves</u> <u>2007</u>	<u>Festivals</u> <u>Kelowna</u> <u>2007</u>	<u>Library</u> <u>Society</u> <u>2007</u>	<u>Consolidation</u> <u>Adjustments</u> <u>2007</u>	<u>Consolidated</u> <u>2007</u>	<u>Consolidated</u> <u>2006</u>
\$ 2,485	\$ 69,706	\$ 8	\$ 168	\$ -	\$ 194,423	\$ 177,375
864	5,889	53	22	-	26,951	23,261
-	-	-	-	-	1,208	941
-	-	-	-	-	817	838
-	-	-	-	-	6,000	6,000
2,117	-	-	-	-	6,289	5,197
-	-	-	-	-	2,106	1,370
-	-	-	-	(8,687)	-	-
<u>5,466</u>	<u>75,595</u>	<u>61</u>	<u>190</u>	<u>(8,687)</u>	<u>237,794</u>	<u>214,982</u>
427	-	10	25	-	42,242	30,278
-	-	-	-	(8,687)	-	-
-	-	-	-	-	5,500	4,199
-	-	-	-	-	25,024	27,883
-	43,809	-	-	-	43,809	41,759
638	-	-	-	-	1,795	1,489
1,479	-	-	-	-	4,494	3,708
39,783	-	-	3,444	-	103,580	79,281
<u>42,327</u>	<u>43,809</u>	<u>10</u>	<u>3,469</u>	<u>(8,687)</u>	<u>226,444</u>	<u>188,597</u>
<u>(36,861)</u>	<u>31,786</u>	<u>51</u>	<u>(3,279)</u>	<u>-</u>	<u>11,350</u>	<u>26,385</u>
-	-	-	-	-	1,454	1,001
-	-	-	-	-	133,960	114,115
<u>55,609</u>	<u>-</u>	<u>-</u>	<u>8,007</u>	<u>-</u>	<u>957,960</u>	<u>868,600</u>
<u>55,609</u>	<u>-</u>	<u>-</u>	<u>8,007</u>	<u>-</u>	<u>1,093,374</u>	<u>983,716</u>
<u>\$ 18,748</u>	<u>\$ 31,786</u>	<u>\$ 51</u>	<u>\$ 4,728</u>	<u>\$ -</u>	<u>\$ 1,104,724</u>	<u>\$ 1,010,101</u>
2,922	-	51	166	-	11,207	9,081
-	-	-	-	-	69,800	63,145
-	31,786	-	-	-	31,786	30,893
15,826	-	-	4,562	-	991,931	906,982
<u>\$ 18,748</u>	<u>\$ 31,786</u>	<u>\$ 51</u>	<u>\$ 4,728</u>	<u>\$ -</u>	<u>\$ 1,104,724</u>	<u>\$ 1,010,101</u>

CITY OF KELOWNA

Statement of Financial Activities - by Fund For the Year Ended December 31, 2007 (in thousands of dollars)

	General Fund <u>2007</u>	Airport Fund <u>2007</u>	Electrical Fund <u>2007</u>	Waste- water Fund <u>2007</u>
Revenue				
Taxation	\$ 82,754	\$ -	\$ -	\$ 2,279
Fees and charges	42,955	14,631	22,954	11,240
Interest earned	2,916	727	506	604
Stat Reserve Cont to Capital	8,438	-	-	45
DCC Contributions	16,459	-	-	5,358
Contribution from other governments	21,219	445	-	1,824
Other Capital Contributions	122	-	-	452
	<u>174,863</u>	<u>15,803</u>	<u>23,460</u>	<u>21,802</u>
Expenditures				
General government services	14,330	-	-	-
Protective services	35,173	-	-	-
Transportation services	75,561	-	-	-
Recreational and cultural services	46,976	-	-	-
Other services	17,081	-	-	-
Airport operations	-	14,988	-	-
Electrical utility	-	-	25,181	-
Wastewater utility	-	-	-	19,937
Water utility	-	-	-	-
Debt Charges	913	-	-	1,811
	<u>190,034</u>	<u>14,988</u>	<u>25,181</u>	<u>21,748</u>
Net Revenue (Expenditure)	(15,171)	815	(1,721)	54
Debt issuance	29,867	-	-	-
Debt repayment	(380)	-	-	(1,443)
Transfer (to) from other funds	920	(25)	(5,225)	(11)
Increase (decrease) in fund balances	\$ 15,236	\$ 790	\$ (6,946)	\$ (1,400)
Fund balance, beginning of year	43,992	4,772	12,268	7,106
Fund balance, end of year	<u>\$ 59,228</u>	<u>\$ 5,562</u>	<u>\$ 5,322</u>	<u>\$ 5,706</u>

Water Fund 2007	Natural Gas Legacy Fund 2007	Statutory Reserve Funds 2007	Festivals Kelowna 2007	Library Society 2007	Consolidated 2007	Consolidated 2006
\$ 1,242	\$ -	\$ -	\$ 229	\$ -	\$ 86,504	\$ 80,943
5,749	5,251	676	346	730	104,532	94,291
106	-	1,240	-	-	6,099	6,196
72	-	(8,555)	-	-	-	-
442	-	-	-	-	22,259	27,132
-	-	-	-	-	23,488	19,957
-	-	2,347	-	-	2,921	5,298
<u>7,611</u>	<u>5,251</u>	<u>(4,292)</u>	<u>575</u>	<u>730</u>	<u>245,803</u>	<u>233,817</u>
-	-	-	-	-	14,330	11,121
-	-	-	-	-	35,173	32,438
-	-	-	-	-	75,561	67,498
-	-	-	524	-	47,500	43,970
-	-	-	-	188	17,269	29,169
-	-	-	-	-	14,988	14,573
-	-	-	-	-	25,181	20,522
-	-	-	-	-	19,937	13,387
6,509	-	-	-	-	6,509	10,875
162	2,933	-	-	314	6,133	6,230
<u>6,671</u>	<u>2,933</u>	<u>-</u>	<u>524</u>	<u>502</u>	<u>262,581</u>	<u>249,783</u>
940	2,318	(4,292)	51	228	(16,778)	(15,966)
-	-	-	-	-	29,867	-
(157)	(1,714)	-	-	(228)	(3,922)	(4,050)
<u>(337)</u>	<u>-</u>	<u>5,185</u>	<u>-</u>	<u>-</u>	<u>507</u>	<u>-</u>
\$ 446	\$ 604	\$ 893	\$ 51	\$ -	\$ 9,674	\$ (20,016)
1,604	2,318	30,893	-	166	103,119	123,135
<u>\$ 2,050</u>	<u>\$ 2,922</u>	<u>\$ 31,786</u>	<u>\$ 51</u>	<u>\$ 166</u>	<u>\$ 112,793</u>	<u>\$ 103,119</u>

CITY OF KELOWNA

Statement of Reserves and Surplus - by Fund For the Year Ended December 31, 2007

(in thousands of dollars)

	<u>General Fund 2007</u>	<u>Airport Fund 2007</u>	<u>Electrical Fund 2007</u>	<u>Waste- water Fund 2007</u>
Reserves for future expenditures	\$ 36,449	\$ 13,716	\$ 2,137	\$ 15,245
Surplus				
Balance, beginning of year	1,133	(4,891)	9,242	1,420
Add:				
Transfer from reserve for future expenditure	21,058	5,422	1,328	681
Increase (decrease) in fund balance	15,236	790	(6,946)	(1,400)
Deduct:				
Transfer to reserve for future expenditure	14,647	9,475	440	10,240
Balance, end of year	<u>22,780</u>	<u>(8,154)</u>	<u>3,184</u>	<u>(9,539)</u>
Fund balance, end of year	<u>\$ 59,229</u>	<u>\$ 5,562</u>	<u>\$ 5,321</u>	<u>\$ 5,706</u>

Statement of Equity in Capital Assets - by Fund For the Year Ended December 31, 2007

(in thousands of dollars)

Balance, beginning of year	\$ 582,327	\$ 46,928	\$ 34,093	\$ 164,815
Contributions to Capital Assets				
Operating fund	12,087	8,164	7,993	5,377
Trust and other funds	3,758	-	-	-
Statutory reserve funds	8,437	-	-	45
Public	177	-	-	-
Federal government	923	-	-	-
Provincial government	6,701	-	-	1,338
Development cost charge contribution	16,459	-	-	5,358
Developers	2,185	-	59	452
Proceeds from the sale of capital assets	122	-	-	-
	<u>50,849</u>	<u>8,164</u>	<u>8,052</u>	<u>12,570</u>
Debt Retirement				
Retirement of debt	381	-	-	1,442
Retirement of short-term debt	-	-	-	-
Actuarial increase in sinking funds	230	-	-	612
	<u>611</u>	<u>-</u>	<u>-</u>	<u>2,054</u>
Asset disposal at original cost	<u>(2,685)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 631,102</u>	<u>\$ 55,092</u>	<u>\$ 42,145</u>	<u>\$ 179,439</u>
Capital asset additions				
Contributions to capital assets	\$ 50,849	\$ 8,164	\$ 8,052	\$ 12,570
Debt Issuance	29,867	-	-	-
Total capital assets acquired	80,716	8,164	8,052	12,570
Assets disposal at original cost	<u>(2,685)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in capital assets	<u>\$ 78,031</u>	<u>\$ 8,164</u>	<u>\$ 8,052</u>	<u>\$ 12,570</u>

<u>Water Fund 2007</u>	<u>Natural Gas Legacy Fund 2007</u>	<u>Festivals Kelowna 2007</u>	<u>Library Society 2007</u>	<u>Consolidated 2007</u>	<u>Consolidated 2006</u>
\$ 2,253	\$ -	\$ -	\$ -	\$ 69,800	\$ 63,145
(307)	2,318	-	166	9,081	19,435
596	-	-	-	29,085	31,892
446	604	51	-	8,781	(13,072)
938	-	-	-	35,740	29,174
(203)	2,922	51	166	11,207	9,081
<u>\$ 2,050</u>	<u>\$ 2,922</u>	<u>\$ 51</u>	<u>\$ 166</u>	<u>\$ 81,007</u>	<u>\$ 72,226</u>

\$ 60,982	\$ 13,503	\$ -	\$ 4,334	\$ 906,982	\$ 791,254
1,916	-	-	-	35,537	55,803
-	-	-	-	3,758	2,786
72	-	-	-	8,554	20,439
-	-	-	-	177	66
-	-	-	-	923	895
-	-	-	-	8,039	4,558
236	-	-	-	22,053	26,335
207	-	-	-	2,903	1,342
-	-	-	-	122	-
<u>2,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,066</u>	<u>112,224</u>
157	1,713	-	229	3,922	4,050
-	-	-	-	-	156
195	609	-	-	1,646	1,331
<u>352</u>	<u>2,322</u>	<u>-</u>	<u>229</u>	<u>5,568</u>	<u>5,537</u>
-	-	-	-	(2,685)	(2,033)
<u>\$ 63,765</u>	<u>\$ 15,825</u>	<u>\$ -</u>	<u>\$ 4,563</u>	<u>\$ 991,931</u>	<u>\$ 906,982</u>
\$ 2,431	\$ -	\$ -	\$ -	\$ 82,066	\$ 112,224
-	-	-	-	29,867	-
<u>2,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,933</u>	<u>112,224</u>
-	-	-	-	(2,685)	(2,033)
<u>\$ 2,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,248</u>	<u>\$ 110,191</u>

CITY OF KELOWNA

Debenture Debt - General Fund

as at December 31, 2007

(in thousands of dollars)

Year of Maturity	Purpose	Debenture Balance Dec. 31/07	Sinking Fund Balance Dec. 31/07	Amount of Issue	Current Interest Rate
	Public Works				%
2019	South Pandosy Spec Area 1	\$ 167	\$ 67	\$ 234	5.99
2019	South Pandosy Spec Area 2	291	119	410	5.99
2021	Downtown Parkade	1,545	655	2,200	7.42
2022	Chapman Parkade	3,391	680	4,071	5.37
	Local Improvements				
2009	Local Improvements	-	54	54	6.50
2010	Local Improvements	189	677	866	6.50
2011	Local Improvements	202	508	710	10.25
2011	Local Improvements	21	54	75	7.42
2014	Local Improvements	263	304	567	9.52
2016	Local Improvements	224	169	393	4.00
2016	Local Improvements	153	116	269	7.42
2017	Local Improvements	34	20	54	5.85
2019	Local Improvements	49	20	69	5.49
	Recreation and Cultural				
2007	Parkland Acquisition	-	826	826	6.10
2011	Brandt's Creek	342	658	1,000	4.00
2021	Kokanee Gymnastics Facility	397	103	500	5.69
2027	Mission Aquatic Centre	27,500	-	27,500	4.82
2027	Kokanee Gymnastics Facility	800	-	800	4.82
		<u>35,568</u>	<u>5,030</u>	<u>40,598</u>	
	Short Term Debt				
2013	Cedar Avenue Land	700	0	700	Prime
2013	Agresso Software System	867	0	867	Prime
		<u>1,567</u>	<u>0</u>	<u>1,567</u>	
		<u>\$ 37,135</u>	<u>\$ 5,030</u>	<u>\$ 42,165</u>	

CITY OF KELOWNA

Debenture Debt - Wastewater Fund

as at December 31, 2007

(in thousands of dollars)

Year of Maturity	Purpose	Debenture Balance Dec. 31/07	Sinking Fund Balance Dec. 31/07	Amount of Issue	Current Interest Rate
	Specified Area Programs				%
2010	Spec. Area 13 - Mission	\$ 152	\$ 543	\$ 695	6.50
2013	Spec. Area 6 - Black Mtn/Toovey	464	676	1,140	6.25
2013	Spec. Area 14 - N. Glenmore	57	82	139	5.50
2013	Spec. Area 15 - Belgo Molnar	15	22	37	6.25
2015	Spec. Area 17 - Mission Flats	700	650	1,350	4.75
2018	Spec. Area 18 - Caramillo	90	45	135	5.55
2018	Spec. Area 19 - Poplar Point	51	26	77	5.55
2022	Spec. Area 22A- Gerstmar	33	6	39	6.06
2024	Spec. Area 21A- McKenzie Bench	1,221	129	1,350	4.98
2024	Spec. Area 22B- Vista Rd	72	7	79	4.98
2024	Spec. Area 22C- Hein Rd	241	25	266	4.98
2024	Spec. Area 22D- Elwyn Rd	134	15	149	4.98
2024	Spec. Area 22E- Dease Rd	87	9	96	4.98
2024	Spec. Area 22F- Mills Rd	310	32	342	4.98
2024	Spec. Area - Champion Cambro	791	83	874	4.98
2024	Spec. Area 30- Acland	330	34	364	4.98
2025	Spec. Area 20-North Rutland	6,355	467	6,822	4.17
2025	Spec. Area 28A-Okaview	595	43	638	4.17
	Sewer Improvement Programs				
2008	Glenmore Trunk Main	-	168	168	5.50
2008	Sewer System Improvements	-	21	21	5.50
2009	Sewer Trunk Main	141	647	788	5.00
2009	Mission Sewer Trunk Main	59	269	328	5.00
2010	Sewer System Improvements	41	117	158	4.00
2014	Long St. Sewer Main Replacement	36	28	64	5.49
2014	Glenwood Sewer Main Replacement	50	40	90	5.49
2019	Byrns Baron Main	3,301	565	3,866	4.98
	Sewage Treatment Plant				
2009	KPCC Upgrade #1	448	2,052	2,500	5.00
2011	KPCC Administration Building	342	658	1,000	4.00
2011	Sewer Treatment Plant Upgrade	435	840	1,275	4.00
2011	KPCC Sewer Treatment Plant	683	1,317	2,000	7.42
2011	KPCC Administration Building	239	461	700	7.42
2011	Sewer Treatment Plant Stage II	102	198	300	7.42
2014	Sewer Treatment Plant Phase III	4,460	3,540	8,000	5.99
		<u>\$ 22,035</u>	<u>\$ 13,815</u>	<u>\$ 35,850</u>	

CITY OF KELOWNA

Debenture Debt - Water Fund

as at December 31, 2007

(in thousands of dollars)

Year of Maturity	Purpose	Debenture Balance Dec. 31/07	Sinking Fund Balance Dec. 31/07	Amount of Issue	Current Interest Rate
	Specified Area Programs				%
2010	Spec. Area 13 - Mission	\$ 83	\$ 298	\$ 381	6.50
2023	Spec Area 16 - Byrns	34	5	39	4.78
2024	Spec Area 18 - Lakeshore	21	3	24	4.98
	Water Improvement Programs				
2008	Poplar Point Reservoir Covers	-	386	386	5.50
2008	Water System Improvements	-	118	118	5.50
2009	Cadder Ave Improvements	12	58	70	5.00
2009	Wilson Ave Improvements	11	49	60	5.00
2009	McDougal Ave Improvements	7	18	25	5.00
2010	Water System Improvements	83	235	318	4.00
2011	Water System Improvements	106	204	310	4.00
2011	Knox Mountain Reservoir	341	659	1,000	4.00
2011	Dilworth Reservoir Repairs	85	165	250	7.42
2011	Caramillo Pressure Valve	17	33	50	7.42
2011	Knox Mountain Reservoir	186	358	544	7.42
2012	Poplar Point	197	276	473	5.85
		<u>\$ 1,183</u>	<u>\$ 2,865</u>	<u>\$ 4,048</u>	

Debenture Debt - Natural Gas Legacy Fund

as at December 31, 2007

(in thousands of dollars)

2018	Leased Capital Assets	\$ 22,579	\$ 7,221	\$ 29,800	6.01
2018	Leased Capital Assets	14,775	4,725	19,500	3.15
		<u>\$ 37,354</u>	<u>\$ 11,946</u>	<u>\$ 49,300</u>	

CITY OF KELOWNA

Reserves and Surplus - 5 Year Comparison

(in thousands of dollars)

	Actual <u>2007</u>	Actual <u>2006</u>	Actual <u>2005</u>	Actual <u>2004</u>	Actual <u>2003</u>
Surplus and Reserves for Future Expenditure					
General Fund					
Reserves	\$ 36,449	\$ 42,859	\$ 47,368	\$ 46,178	\$ 49,504
Surplus	22,780	1,133	3,167	3,122	3,113
Airport Fund					
Reserves	13,716	9,663	8,165	7,083	6,605
Surplus (deficit)	(8,154)	(4,891)	(2,923)	(3,444)	(5,432)
Electrical Fund					
Reserves	2,137	3,026	3,078	3,131	3,020
Surplus	3,184	9,242	9,376	8,574	8,878
Wastewater Fund					
Reserves	15,245	5,686	3,795	3,021	2,367
Surplus (deficit)	(9,539)	1,420	7,297	10,749	8,555
Water Fund					
Reserves	2,253	1,911	3,457	4,696	2,862
Surplus (deficit)	(203)	(307)	1,082	1,632	2,549
Natural Gas Legacy Fund					
Surplus	2,922	2,318	1,270	2,248	2,137
Festivals Kelowna					
Surplus	51	-	-	-	-
Library Fund					
Surplus	166	166	166	166	166
Total Surplus and Reserves for Future Expenditures	\$ 81,007	\$ 72,226	\$ 85,298	\$ 87,156	\$ 84,324
Statutory Reserves					
Capital Works Machinery and Equipment	25,358	24,355	32,619	30,403	26,927
Land Sales	5,336	4,661	3,095	4,843	4,297
Parking	1,092	1,877	2,123	1,852	1,769
Total Statutory Reserves	31,786	30,893	37,837	37,098	32,993
Deferred development cost charges	43,809	41,759	53,358	48,162	36,599
	\$ 156,602	\$ 144,878	\$ 176,493	\$ 172,416	\$ 153,916

CITY OF KELOWNA

Capital Expenditures and Funding Sources

For the Year Ended December 31, 2007

(in thousands of dollars)

	Operating Fund	Fed/Prov Funding	Statutory Reserves	Developer / Public	Borrowing/ Other	Actual 2007	Actual 2006
General Fund							
Land							
Transportation services	\$ 1,570	\$ 1,363	\$ 518	\$ 2,571	\$ 1,736	\$ 7,758	\$ 10,092
Environment Health	-	-	-	-	-	-	12,569
Public health and welfare	13	-	306	-	-	319	57
Recreation and cultural services	679	-	655	2,764	-	4,098	8,208
Other	-	-	-	34	-	34	902
	<u>2,262</u>	<u>1,363</u>	<u>1,479</u>	<u>5,369</u>	<u>1,736</u>	<u>12,209</u>	<u>31,828</u>
Buildings							
General government services	418	-	-	-	-	418	135
Protective services	943	-	-	-	-	943	5
Transportation services	128	-	31	-	-	159	5
Recreation and cultural services	10,082	2,415	62	-	746	13,305	4,618
	<u>11,571</u>	<u>2,415</u>	<u>93</u>	<u>-</u>	<u>746</u>	<u>14,825</u>	<u>4,763</u>
Engineering Structures							
General government services	-	-	-	-	-	-	101
Transportation services	16,262	3,092	1,671	13,313	5,099	39,437	34,208
Environmental health services	114	22	2,781	-	-	2,917	3,941
Public health and welfare	-	-	-	-	-	-	161
Recreation and cultural services	3,904	698	333	255	-	5,190	8,106
	<u>20,280</u>	<u>3,812</u>	<u>4,785</u>	<u>13,568</u>	<u>5,099</u>	<u>47,544</u>	<u>46,517</u>
Machinery and Equipment							
General government services	994	-	29	-	867	1,890	479
Protective services	233	-	87	-	-	320	349
Transportation services	1,441	-	1,908	4	-	3,353	2,356
Environmental health services	33	-	57	-	-	90	507
Recreation and cultural services	396	34	(1)	2	54	485	434
	<u>3,097</u>	<u>34</u>	<u>2,080</u>	<u>6</u>	<u>921</u>	<u>6,138</u>	<u>4,125</u>
Total General Fund	<u>\$ 37,210</u>	<u>\$ 7,624</u>	<u>\$ 8,437</u>	<u>\$ 18,943</u>	<u>\$ 8,502</u>	<u>\$ 80,716</u>	<u>\$ 87,233</u>

CITY OF KELOWNA

Capital Expenditures and Funding Sources (continued)

For the Year Ended December 31, 2007

(in thousands of dollars)

	Operating Fund	Fed/Prov Funding	Statutory Reserves	Developer / Public	Borrowing/ Other	Actual 2007	Actual 2006
Total General Fund	\$ 37,210	\$ 7,624	\$ 8,437	\$ 18,943	\$ 8,502	\$ 80,716	\$ 87,233
Airport Fund							
Buildings	7,609	-	-	-	-	7,609	1,884
Engineering Structures	505	-	-	-	-	505	6,467
Machinery and Equipment	50	-	-	-	-	50	318
	<u>8,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,164</u>	<u>8,669</u>
Electric Utility Fund							
Engineering Structures	7,603	-	-	59	-	7,662	3,220
Machinery and Equipment	390	-	-	-	-	390	344
	<u>7,993</u>	<u>-</u>	<u>-</u>	<u>59</u>	<u>-</u>	<u>8,052</u>	<u>3,564</u>
Wastewater Utility Fund							
Engineering Structures	421	1,338	45	5,810	4,939	12,553	6,784
Machinery and Equipment	17	-	-	-	-	17	67
	<u>438</u>	<u>1,338</u>	<u>45</u>	<u>5,810</u>	<u>4,939</u>	<u>12,570</u>	<u>6,851</u>
Water Utility Fund							
Land	-	-	-	-	-	-	2
Engineering Structures	1,423	-	72	443	462	2,400	5,887
Machinery and Equipment	31	-	-	-	-	31	18
	<u>1,454</u>	<u>-</u>	<u>72</u>	<u>443</u>	<u>462</u>	<u>2,431</u>	<u>5,907</u>
Natural Gas Legacy Fund							
Leased Gas Distribution System	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 55,259</u>	<u>\$ 8,962</u>	<u>\$ 8,554</u>	<u>\$ 25,255</u>	<u>\$ 13,903</u>	<u>\$ 111,933</u>	<u>\$ 112,224</u>

CITY OF KELOWNA

Consolidated Expenditures
By Function and Object
For the Year Ended December 31, 2007
(in thousands of dollars)

	<u>General</u> <u>Gov't</u>	<u>Protective</u> <u>Services</u>	<u>Trans.</u> <u>Services</u>	<u>Recreation/</u> <u>Cultural</u> <u>Services</u>	<u>Other</u> <u>Services</u>	<u>Airport</u> <u>Services</u>	<u>Electrical</u> <u>Services</u>
Salaries and Benefits	\$ 8,778	\$ 16,494	\$ 6,342	\$ 7,550	\$ 3,610	\$ 2,128	\$ 114
Contract and Professional Services	1,848	1,559	12,761	6,570	6,478	2,244	750
RCMP Contract	-	14,276	-	-	-	283	-
Materials and Supplies	4,008	987	3,493	3,013	1,239	1,630	15,308
Equipment	186	257	1,678	1,052	1,447	15	-
Allocations	(2,934)	-	(162)	(81)	(848)	572	952
Cost Recoveries	(315)	(22)	(157)	(94)	(1)	(469)	-
Grants and External Transfers	280	49	-	4,880	1,728	-	-
Utilities	171	310	899	1,009	68	421	5
Capital Assets	2,308	1,263	50,707	23,078	3,359	8,164	8,052
	<u>14,330</u>	<u>35,173</u>	<u>75,561</u>	<u>46,977</u>	<u>17,080</u>	<u>14,988</u>	<u>25,181</u>
Debt Interest and Fiscal Services	913	-	-	-	-	-	-
	<u>\$ 15,243</u>	<u>\$ 35,173</u>	<u>\$ 75,561</u>	<u>\$ 46,977</u>	<u>\$ 17,080</u>	<u>\$ 14,988</u>	<u>\$ 25,181</u>

<u>Waste- water Services</u>	<u>Water Services</u>	<u>Nat. Gas Legacy Services</u>	<u>Festivals Kelowna Services</u>	<u>Library Services</u>	<u>Total</u>				
					<u>Actual 2007</u>	<u>Actual 2006</u>	<u>Actual 2005</u>	<u>Actual 2004</u>	<u>Actual 2003</u>
\$ 2,561	\$ 1,630	\$ -	\$ 177	\$ 20	\$ 49,404	\$ 45,209	\$ 41,593	\$ 40,085	\$ 37,652
635	352	-	23	43	33,263	28,039	26,727	26,597	23,053
-	-	-	-	-	14,559	14,014	12,659	11,385	11,122
628	771	-	324	9	31,410	29,379	27,084	27,386	25,184
411	235	-	-	3	5,284	4,511	3,515	3,501	3,059
2,049	503	-	-	-	51	22	79	(474)	(112)
-	(5)	-	-	(2)	(1,065)	(722)	(865)	(801)	(874)
-	-	-	-	-	6,937	6,577	5,813	6,085	5,016
1,083	592	-	-	115	4,673	4,300	3,821	3,638	3,587
12,570	2,431	-	-	-	111,932	112,224	76,392	64,139	66,169
19,937	6,509	-	524	188	256,448	243,553	196,818	181,541	173,856
1,811	162	2,933	-	314	6,133	6,230	6,018	6,197	6,462
<u>\$ 21,748</u>	<u>\$ 6,671</u>	<u>\$ 2,933</u>	<u>\$ 524</u>	<u>\$ 502</u>	<u>\$ 262,581</u>	<u>\$ 249,783</u>	<u>\$ 202,836</u>	<u>\$ 187,738</u>	<u>\$ 180,318</u>

CITY OF KELOWNA

Schedule of Receipts and Disbursements of Federal Gas Tax For the Year Ended December 31, 2007 (in thousands of dollars)

	Actual 2007	Actual 2006
Federal Gas Tax Agreement Funds		
Balance, beginning of the year	\$ 1,275	\$ 834
Add:		
Amount received during the year	833	833
Interest earned	34	34
Deduct:		
Program expenditures	426	426
Balance, end of the year	\$ <u>1,716</u>	\$ <u>1,275</u>

Federal Gas Tax

Gas Tax funding is provided by the Government of Canada. The use of the funding is established by a funding agreement between the Municipality and the Union of British Columbia Municipalities. Gas tax funding may be used towards designated public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements.