



2016

Consolidated Financial Statements

Fiscal Year Ending December 31, 2016

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**City of West Kelowna
December 31, 2016**

Management's Responsibility for Financial Reporting

The Council of the City of West Kelowna has delegated the responsibility for the integrity and objectivity of the financial information contained in the consolidated financial statements to the management of the City of West Kelowna. The consolidated financial statements which, in part, are based on informed judgments and estimates, have been prepared by management in accordance with Canadian public sector accounting standards, which have been applied on a basis consistent with that of the preceding year.

To assist in carrying out their responsibility, management maintains an accounting system and internal controls to provide reasonable assurance that transactions are executed and recorded in accordance with authorization, and that financial records are reliable for preparation of financial statements.

Mayor and Council oversee management's responsibilities for the financial reporting and internal control systems. Council annually reviews and approves the consolidated financial statements.

The City of West Kelowna's independent auditors, KPMG LLP, are engaged to express an opinion as to whether these consolidated financial statements present fairly the City's consolidated financial position, financial activities and cashflows in accordance with Canadian public sector accounting standards. Their opinion is based on procedures they consider sufficient to support such an opinion in accords with Canadian generally accepted auditing standards.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in accordance with Canadian public sector accounting standards.

Lisa Pleadwell
Chief Financial Officer
May 9, 2017



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INDEPENDENT AUDITORS' REPORT

To Mayor and Council of the City of West Kelowna

We have audited the accompanying consolidated financial statements of the City of West Kelowna, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of operations, change in net financial assets (debt) and cash flows for the year then ended, and notes, comprising 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 our 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, we consider internal control relevant to the entity'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 entity'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 consolidated financial position of the City of West Kelowna as at December 31, 2016, and its consolidated results of operations, its consolidated changes in net assets (debt) and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Comparative Information

The consolidated financial statements of the City of West Kelowna as at December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on May 10, 2016.

KPMG LLP

Chartered Professional Accountants

May 9, 2017

Kelowna, Canada

City of West Kelowna
Statement of financial position
December 31, 2016

2016

2015

Financial assets

Cash and cash equivalents (Note 4)	\$ 37,209,186	\$ 30,181,193
Accounts receivable (Note 4)	<u>15,622,884</u>	<u>15,302,926</u>
	<u>52,832,070</u>	<u>45,484,119</u>

Liabilities

Accounts payable and accrued liabilities (Note 4)	7,629,394	6,305,534
Security deposits	5,008,386	4,031,016
Deferred revenue (Note 4)	2,663,974	2,432,895
Deferred development cost charges (Note 4)	11,965,139	9,147,156
Long-term debt (Note 4)	<u>23,102,952</u>	<u>25,332,192</u>
	<u>50,369,845</u>	<u>47,248,793</u>

Net financial assets (debt) 2,462,225 (1,764,674)

Non-financial assets

Prepaid expenses and inventory	795,805	404,606
Tangible capital assets and work in progress (Note 5)	<u>359,110,773</u>	<u>362,937,518</u>
	<u>359,906,578</u>	<u>363,342,124</u>

Accumulated surplus (Schedule 2) \$ 362,368,803 \$ 361,577,450

Contingent liabilities and commitments (Note 9 and 10)



 Lisa Pleadwell
 Chief Financial Officer



 Doug Findlater
 Mayor, City of West Kelowna

City of West Kelowna**Statement of operations and accumulated surplus****Year ended December 31, 2016**

	2016	2016 Budget (Note 13)	2015
Revenue			
Taxation - net (Note 6)	\$ 30,111,188	\$ 30,260,423	\$ 28,586,732
Sales of service and regulatory fees	17,168,170	18,131,319	16,810,232
Government transfers (Note 7)	2,782,655	2,247,370	5,171,512
Other (Note 8)	5,031,711	4,991,555	5,173,948
Total revenues	<u>55,093,724</u>	<u>55,630,667</u>	<u>55,742,424</u>
Expenses (Schedule 3)			
General government services	14,434,294	14,536,083	13,886,868
Protective services	11,717,618	12,264,722	11,877,331
Transportation services	5,158,736	5,405,929	5,084,200
Environmental & health development services	4,601,224	4,454,801	4,275,075
Recreation and cultural services	6,711,586	6,680,468	6,462,365
Water services	5,965,371	6,091,218	5,860,350
Sewer services	5,496,187	6,050,298	5,460,716
Storm drainage	217,348	208,739	207,971
Total expenses	<u>54,302,364</u>	<u>55,692,258</u>	<u>53,114,876</u>
Annual surplus (deficit)	791,360	(61,591)	2,627,548
Accumulated surplus, beginning of year	361,577,450	361,577,450	358,949,902
Accumulated surplus, end of year	<u>\$ 362,368,810</u>	<u>\$ 361,515,859</u>	<u>\$ 361,577,450</u>

City of West Kelowna
Statement of changes in net debt
Year ended December 31, 2016

	2016	2016 Budget (Note 13)	2015
Annual surplus (deficit)	\$ 791,360	\$ (61,591)	\$ 2,627,548
Acquisition of tangible capital assets and work in progress	(7,053,104)	(10,108,731)	(5,797,559)
Amortization of tangible capital assets	10,879,842	10,879,842	10,667,327
Proceeds from disposal of tangible capital assets	-	-	-
Gain on disposal of tangible capital assets	-	-	-
Net change in prepaid expenses and inventory	(391,199)	-	266,692
 Increase in financial assets	 4,226,899	 709,520	 7,764,008
 Net debt, beginning of year	 (1,764,674)	 (1,764,674)	 (9,528,682)
Net debt, end of year	\$ 2,462,225	\$ (1,055,154)	\$ (1,764,674)

City of West Kelowna
Statement of cash flows
Year ended December 31, 2016

	2016	2015
Cash provided by (used for)		
Operating activities		
Annual surplus (deficit)	\$ 791,360	\$ 2,627,548
Adjustment for non cash items		
Amortization of tangible capital assets	10,879,841	10,667,327
Developer and donor contribution of tangible capital assets	-	(675,054)
Actuarial adjustment on long-term debt	(603,736)	(600,407)
(Increase) decrease in		
Accounts receivable	(319,959)	455,305
Prepaid expenses and inventory	(391,200)	266,692
Increase (decrease) in		
Accounts payable and accrued liabilities	1,323,859	(3,417,642)
Security deposits	977,369	(701,342)
Deferred development cost charges	2,817,982	1,163,071
Deferred revenue	231,078	359,225
	<u>15,706,594</u>	<u>10,144,723</u>
Financing activities		
Repayment of long-term debt	(1,625,505)	(1,727,632)
	<u>(1,625,505)</u>	<u>(1,727,632)</u>
Capital activities		
Acquisition of tangible capital assets and work in progress	(7,053,096)	(5,122,505)
Proceeds from disposal of tangible capital assets	-	-
	<u>(7,053,096)</u>	<u>(5,122,505)</u>
Increase (decrease) in cash and cash equivalents	7,027,993	3,294,586
Cash and cash equivalents, beginning of year	<u>30,181,193</u>	<u>26,886,607</u>
Cash and cash equivalents, end of year	\$ 37,209,186	\$ 30,181,193
Supplementary cash flow information		
Interest paid	\$ 1,426,706	\$ 1,652,341

Notes to the financial statements

December 31, 2016

1. Nature of operations

The City of West Kelowna is a local government situated in the province of British Columbia, Canada. The City of West Kelowna is subject to the laws and regulations of the provincial statutes of the *Community Charter*, the *Local Government Act*. West Kelowna was officially incorporated as Westside District Municipality on December 6, 2007. In 2008, the name was changed to District of West Kelowna. On June 26, 2015, West Kelowna was reclassified from District to Municipality. At that time, the City of West Kelowna had become British Columbia's 51st city. The City of West Kelowna provides community services to its taxpayers and is responsible for creating and maintaining an infrastructure to serve a population in excess of the full time residents.

2. Summary of significant accounting policies

The financial statements are the responsibility of and prepared by management in accordance with Canadian public sector accounting standards ("PSAS"). The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

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

Basis of presentation

The City's resources and operations are segregated into General, Water, Sewer, Statutory Reserve and Non-statutory Reserve Funds for accounting and financial reporting purposes. The financial statements include all of the accounts of these funds. All interfund transactions and balances have been eliminated within the financial statements.

Accrual accounting

The financial statements are prepared using the accrual basis of accounting.

Cash and cash equivalents

Management classifies all term deposits and highly liquid investments that are cashable on demand as cash equivalents.

(continued)

City of West Kelowna

Notes to the financial statements

December 31, 2016

2. Summary of significant accounting policies (continued)

Tangible capital assets

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

Asset class	Estimated useful life
Buildings	25-50 years
Building improvements	5-30 years
Computer	3-25 years
Infrastructure	3-20 years
Machinery	10-20 years
Office furniture and equipment	10-25 years
Roads	40 years
Sewer infrastructure	20-100 years
Sidewalks	50 years
Small tools and equipment	5-25 years
Solid waste carts	25 years
Storm drain	10-50 years
Vehicles	10-20 years
Water infrastructure	25-100 years

Work in progress

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

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue.

The City has numerous works of art located throughout the City which are not reflected in these financial statements due to the subjectivity as to their value.

Long-term debt

Outstanding debenture debt is reported net of applicable sinking fund balances.

Interest on debt is charged to current operations. Interest charges are accrued for the period from the date of the latest interest payment to the end of the year.

Contributions by developers

Tangible capital assets constructed and contributed by developers are recorded at their fair value and are capitalized into tangible capital assets and reflected in the statement of operations and accumulated surplus as revenue.

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

2. Summary of significant accounting policies (continued)

Municipal Finance Authority debt reserve deposits

The City issues its debt instruments through the Municipal Finance Authority. As a condition of these borrowings, a portion of the debenture proceeds are 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. The details of the cash deposits and demand notes at year end are as follows:

	Demand notes	Cash deposits	2016	2015
General Fund	\$ 435,325	\$ 176,557	\$ 611,882	\$ 607,081
Water Funds	11,423	5,260	16,683	16,540
Sewer Fund	586,714	304,144	890,858	892,238
	<u>\$ 1,033,462</u>	<u>\$ 485,961</u>	<u>\$ 1,519,423</u>	<u>\$ 1,515,859</u>

Reserve funds

Non-statutory reserves represent an appropriation of surplus for specific purposes. Reserves for future expenses represent funds that are available to temporarily finance operations until planned revenues (i.e. property taxes, grants, etc.) are received, or for other operating or capital purposes as determined by Council. Statutory reserves have been established by bylaw in accordance with the *Community Charter* and their use is restricted by legislation.

Revenue recognition

Taxation revenues are recorded on the accrual basis and recognized in the year they are levied. Sale of services and regulatory fees are recognized when the service or product is provided by the City. 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. Other revenue from own services is recorded as it is earned and measurable. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the City discharges the obligation that led to the collection of funds.

Budget figures

The budget figures are from the 10-Year Financial Plan Bylaw, adopted before May 15th of each year. Subsequent amendments have been made by Council to reflect changes in the budget as required by law.

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts, and disclosure of, assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of employee benefit accrual, the measurement of an allowance for doubtful accounts receivable, the existence and measurement of any contingent liabilities and tangible capital asset estimated useful life and related amortization expense. Actual results could differ from management's best estimates as additional information becomes available. Adjustments, if any, will be reflected in the financial statements in the period that the change in estimate is made, as well as the period of settlement if the amount is different.

Liability for contaminated sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

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

The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring.

(continued)

City of West Kelowna

Notes to the financial statements

December 31, 2016

3. Current and future accounting changes

PS 1201 – Financial statement presentation (2019)

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, 2019, with early adoption permitted.

PS 2200 – Related party transactions (2018)

This section establishes the definition of a related party, the criteria for identifying related parties of the City, the circumstances in which disclosure of the transaction with the related party would be required, and the required content of those disclosures, if necessary. This section applies to fiscal years beginning on or after April 1, 2017, with early adoption permitted.

PS 2601 – Foreign currency translation (2020)

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, 2019, with early adoption permitted.

PS 3041 – Portfolio investments (2020)

This section revises and replaces the existing Section PS 3040 - Portfolio investments. This section applies to fiscal years beginning on or after April 1, 2019, with early adoption permitted.

PS 3210 – Assets (2018)

This new section provides guidance for applying the definition of an asset set out in Section PS 1000 Financial statement concepts and establishes general disclosure standards for assets. This section applies to fiscal years beginning on or after April 1, 2017, with early adoption permitted.

PS 3320 – Contingent assets (2018)

This new section defines and establishes disclosure requirements for contingent assets. This section applies to fiscal years beginning on or after April 1, 2017, with early adoption permitted.

PS 3380 – Contractual rights (2018)

This new section defines and establishes disclosure requirements for contractual rights. Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. This section applies to fiscal years beginning on or after April 1, 2017, with early adoption permitted.

PS 3420 – Inter-entity transactions (2018)

This section establishes how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. This section applies to fiscal years beginning on or after April 1, 2017, with early adoption permitted.

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

3. Current and future accounting changes (continued)

PS 3450 – Financial instruments (2020)

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, 2019, with early adoption permitted.

4. Financial assets and liabilities

Cash and cash equivalents

Cash and cash equivalents held by the City include cash and term deposits with interest rates between 1.05% and 2.06%.

Accounts receivable

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

	2016	2015
Taxes	\$ 2,606,750	\$ 2,635,293
Federal government	581,663	464,106
Provincial government	1,434,193	866,071
Other governments	(34,195)	33,117
Sewer funds	7,350,987	7,771,542
Utilities	2,945,343	2,946,604
Other	738,143	586,193
	<u>\$ 15,622,884</u>	<u>\$ 15,302,926</u>

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of the following:

	2016	2015
Trade payables	\$ 1,400,799	\$ 1,798,738
Wages and payroll benefits	1,713,590	1,472,941
Accruals	663,960	52,868
Other governments	3,799,595	2,784,793
Other	51,450	196,194
	<u>\$ 7,629,394</u>	<u>\$ 6,305,534</u>

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

4. Financial assets and liabilities (continued)

Deferred revenue is comprised of the following:

	2016	2015
Property taxes	\$ 2,232,336	\$ 2,046,361
Recreation program fees	97,717	105,830
Cemetery perpetual care fund	115,739	104,379
Utility fees	151,563	117,719
Other	66,619	58,606
	<u>\$ 2,663,974</u>	<u>\$ 2,432,895</u>

Deferred development cost charges ("DCC's")

Pursuant to the provisions of the Local Government Act, DCC's are held in statutory reserve funds for the purpose for which the charges have been imposed. When the related costs are incurred, the DCC's are recognized as revenue. Because these funds are restricted in nature they are shown as a liability.

	2016	2015
Balance, beginning of year	\$ 9,147,156	\$ 7,984,085
Contributions from developers	3,112,354	1,311,399
Interest on investments	125,919	102,174
Bylaw expenditures	(420,290)	(250,502)
Balance, end of year	<u>\$ 11,965,139</u>	<u>\$ 9,147,156</u>

DCC's are comprised of the following:

	2016	2015
Roads	\$ 6,257,380	\$ 3,982,345
Water	4,192,629	3,823,000
Parks	1,507,091	1,341,811
Sewer	2,485	-
Storm Sewer	5,554	-
	<u>\$ 11,965,139</u>	<u>\$ 9,147,156</u>

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

4. Financial assets and liabilities (continued)

Long-term debt

	Year of Maturity	Balance, beginning of year	Additions	Sinking fund payments	Actuarial adjustment	Balance, end of year	Current interest rate (%)
General fund							
MFA issue #95	2025	\$ 1,962,701	\$ -	\$ 120,896	\$ 46,408	\$ 1,795,397	1.80
MFA issue #99	2017	187,159	-	131,496	55,663	-	4.43
MFA issue #105	2029	6,420,778	-	277,414	73,603	6,069,761	4.90
		<u>8,570,638</u>	<u>-</u>	<u>529,806</u>	<u>175,674</u>	<u>7,865,158</u>	
Water funds							
MFA issue #101	2027	169,190	-	8,228	3,032	157,930	4.52
MFA issue #103	2028	103,266	-	4,720	1,490	97,056	4.65
Province of BC	2027	7,589,876	-	503,134	-	7,086,742	4.95
		<u>7,862,332</u>	<u>-</u>	<u>516,082</u>	<u>4,522</u>	<u>7,341,728</u>	
Sewer fund							
MFA issue #64	2016	10,890	-	4,310	6,580	-	4.43
MFA issue #66	2017	102,431	-	20,762	29,205	52,464	4.82
MFA issue #66	2017	5,371	-	1,089	1,531	2,751	4.82
MFA issue #70	2019	46,945	-	5,536	5,433	35,976	2.10
MFA issue #71	2019	143,365	-	16,906	16,592	109,867	2.10
MFA issue #71	2019	306,408	-	36,133	35,460	234,815	2.10
MFA issue #73	2020	26,039	-	2,516	2,244	21,279	2.10
MFA issue #73	2020	542,562	-	52,425	46,751	443,386	2.10
MFA issue #74	2021	259,849	-	19,295	18,906	221,648	3.05
MFA issue #74	2021	68,302	-	5,072	4,969	58,261	3.05
MFA issue #74	2021	80,235	-	5,958	5,838	68,439	3.05
MFA issue #74	2021	28,510	-	2,117	2,074	24,319	3.05
MFA issue #74	2021	30,750	-	2,283	2,239	26,228	3.05
MFA issue #74	2021	57,346	-	4,258	4,173	48,915	3.05
MFA issue #75	2021	10,589	-	786	771	9,032	3.05
MFA issue #75	2021	386,922	-	28,730	28,154	330,038	3.05
MFA issue #75	2021	155,583	-	11,553	11,319	132,711	3.05
MFA issue #77	2022	889,161	-	57,915	51,291	779,955	3.05
MFA issue #79	2023	1,016,320	-	59,265	47,165	909,890	2.10
MFA issue #85	2024	543,045	-	28,795	20,453	493,797	2.00

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

4. Financial assets and liabilities (continued)

Long-term debt (continued)

MFA issue #85	2024	\$ 34,221	\$ -	\$ 1,815	\$ 1,288	\$ 31,118	2.00
MFA issue #95	2025	550,561	-	33,913	13,018	503,630	1.80
MFA issue #99	2027	12,662	-	660	278	11,724	4.43
MFA issue #99	2027	833,708	-	43,433	18,386	771,889	4.43
MFA issue #101	2027	1,793,411	-	87,212	32,143	1,674,056	4.52
MFA issue #101	2027	420,074	-	20,428	7,528	392,118	4.52
MFA issue #101	2027	543,962	-	26,452	9,750	507,760	4.52
		<u>8,899,222</u>	<u>-</u>	<u>579,617</u>	<u>423,539</u>	<u>7,896,066</u>	
Total long-term debt		<u>\$ 25,332,192</u>	<u>\$ -</u>	<u>\$ 1,625,505</u>	<u>\$ 603,735</u>	<u>\$ 23,102,952</u>	

The requirements for future repayments of principal on existing debt for the next five years are as follows:

	2017	2018	2019	2020	2021
General Fund	\$ 398,310	\$ 398,310	\$ 398,310	\$ 398,310	\$ 398,310
Water Funds	541,442	568,082	596,063	625,456	656,330
Sewer Fund	575,304	553,453	553,453	494,879	439,938
	<u>\$ 1,515,056</u>	<u>\$ 1,519,845</u>	<u>\$ 1,547,826</u>	<u>\$ 1,518,645</u>	<u>\$ 1,494,578</u>

5. Tangible capital assets and work in progress

Tangible capital assets and work in progress are comprised of the following:

	2016	2015
	Net book value	Net book value
General		
Land	\$ 101,254,568	\$ 101,254,568
Buildings	26,202,261	26,756,847
Equipment	6,958,164	7,284,397
Engineering structures	<u>111,569,864</u>	<u>113,401,026</u>
	<u>245,984,857</u>	<u>248,696,838</u>
Water infrastructure	59,456,292	60,745,271
Sewer infrastructure	51,445,643	<u>52,365,338</u>
Tangible capital assets	\$ 356,886,792	\$ 361,807,447
Work in progress	\$ 2,223,981	<u>\$ 1,130,071</u>
Tangible capital assets and work in progress (Schedule 1)	\$ 359,110,773	<u>\$ 362,937,518</u>

City of West Kelowna
Notes to the financial statements
December 31, 2016

6. Taxation - net

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

	2016	2015
General municipal purposes	\$ 29,904,553	\$ 28,586,732
Collections for other governments		
Provincial Government - Schools	14,835,839	14,841,322
Central Okanagan Regional Hospital District	2,580,702	2,574,508
Regional District of the Central Okanagan	3,395,149	3,065,034
British Columbia Assessment Authority	438,146	446,809
Municipal Finance Authority	1,549	1,450
	<u>51,155,938</u>	<u>49,515,855</u>
Transfers to other governments		
Provincial Government - Schools	(14,835,839)	(14,841,322)
Central Okanagan Regional Hospital District	(2,580,702)	(2,574,508)
Regional District of the Central Okanagan	(3,188,514)	(3,065,034)
British Columbia Assessment Authority	(438,146)	(446,809)
Municipal Finance Authority	(1,549)	(1,450)
	<u>(21,044,750)</u>	<u>(20,929,123)</u>
	<u>\$ 30,111,188</u>	<u>\$ 28,586,732</u>

7. Government transfers

	2016	2015
Provincial unconditional transfers		
Other	51,572	56,953
	<u>51,572</u>	<u>56,953</u>
Provincial conditional transfers		
Okanagan Basin Water Board grant	45,559	48,314
Regionally significant gas tax funds	-	3,051,500
Other	406,638	111,673
	<u>452,197</u>	<u>3,211,487</u>
Federal unconditional transfers		
Traffic fine revenue sharing grant and Federal grants	923,218	591,570
	<u>923,218</u>	<u>591,570</u>
Federal conditional transfers		
Gas tax community works fund	1,355,668	1,311,502
	<u>1,355,668</u>	<u>1,311,502</u>
	<u>\$ 2,782,655</u>	<u>\$ 5,171,512</u>

City of West Kelowna
Notes to the financial statements
December 31, 2016

8. Revenue - other

	2016	2015
DCC contributions	\$ 420,290	\$ 250,502
Cost recoveries	648,984	965,062
Development permits	1,395,466	825,020
Interest earned	231,144	634,655
Actuarial adjustment on long-term debt	605,501	600,407
Licenses and permits	232,694	211,445
Penalties and interest on taxes	465,165	412,543
Rentals	591,740	584,036
Donations	23,221	371,507
Other	417,506	318,771
	<u>\$ 5,031,711</u>	<u>\$ 5,173,948</u>

9. 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 City and each member municipality within the Regional District including the City of West 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. As at December 31, 2016, the City does not anticipate being required to assume any of the Regional District's debt.

Legal actions

The City 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 actions will be recorded in the accounts in the period in which the loss is realized. The City has insurance policies and financial reserves to offset associated risks.

Pension liability

The City and its employees contribute to the Municipal Pension Plan ("the Plan"), a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for administering the Plan, including investment of assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2015, the Plan has about 189,000 active members and approximately 85,000 retired members. Active members include approximately 37,000 contributors from local governments.

(continued)

City of West Kelowna
Notes to the financial statements
December 31, 2016

9. Contingent liabilities (continued)

Pension liability (continued)

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the Plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the Plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

The most recent actuarial valuation for the Plan as at December 31, 2015 indicated a \$2.224 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2018 with results available in 2019.

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

The City paid \$1,317,740 (2015-\$1,325,195) for employer contributions while employees contributed \$1,132,503 (2015-\$1,168,351) to the Plan in fiscal 2016.

10. Commitments

The City has entered into various operating leases for equipment and payments under contracts for services with terms varying from one to five years. The total lease commitments payable in each of the next five years are as follows:

2017	\$ 2,380,228
2018	\$ 195,501
2019	\$ 188,026
2020	\$ 84,300
2021	\$ 51,240
	<u>\$ 2,899,295</u>

Vacation pay and sick leave

Vacation pay, which may be accumulated up to 10 days, is charged to expense in the year earned. The ALGEU Collective Agreement allows for the accumulation of sick leave to a maximum of 100 days, it is expensed in the year it is accumulated. Earned sick leave vests after 10 years of employment and is paid to a maximum of 50 days.

11. Letters of Credit

The City is holding letters of credit in the amount of \$6,663,764 (2015-\$5,566,720), which are received as security related to performance deposits.

City of West Kelowna
Notes to the financial statement
December 31, 2016

12. Segmented information

The City of West Kelowna is a diversified municipal government that provides a wide range of services to its citizens. 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 services, protective services, transportation services, environmental health and developmental services, and recreation and cultural services. The utility operations are comprised of the water, sewer and storm drainage systems, each accounting for its own operations and programs within their own funds. Operating results reported by the following segments are included in Schedule 3.

General government services

General government services are comprised of a number of different functions including Legislative services, Administration, Finance and Information Services. Legislative services involves staff working closely with Council and community partners to coordinate the delivery of a wide range of functions and services. Administration is responsible for the Human Resources function, which oversees the recruitment and retention of superior quality staff, management of labour relations, administration of collective agreements, employee compensation and benefit programs, staff training and development, employee health and safety and Work Safe BC regulations. Finance is responsible for the requisition of tax revenues from the Province and other taxing authorities and all treasury and accounting functions. Information Services includes an all-encompassing computer database and mapping system for properties in the City, which is used by City departments, other government agencies and members of the public.

Protective services

Protective services consists of all the various services provided by the RCMP, Fire Services and Bylaw Enforcement designed to protect the lives and property of both citizens and visitors with a focus on emergency response, law enforcement, search and rescue, education and prevention.

Transportation services

Transportation services include roads and maintenance, street lighting, traffic management and transit system.

Environmental health and development services

Environmental health and development services, which also include cemetery operations, are responsible for delivering health, planning and development services to the City. The specific functions include planning, building permits and inspections, business licensing, design and engineering services as well as tourism and economic development.

(continued)

City of West Kelowna

Notes to the financial statements

December 31, 2016

12. Segmented information (continued)

Recreation and cultural services

Recreation and cultural services include recreational program design, delivery and management, municipal facilities/parks development and maintenance and the museum operation, as well as coordination of many recreational/sporting activities and groups.

Water services

Water services is responsible for the operation and maintenance of the five water systems that provide water services to the residents and businesses within the municipal boundaries of the City.

Sewer services

Sewer services deals with the operation and maintenance of the sewer collection system within the municipal boundaries of the City.

Storm drainage

Storm drainage is responsible for the operation and maintenance of the storm drainage collection system within the municipal boundaries of the City.

13. Budget

The budget amounts presented reflect the statutory financial plan as adopted by Council on April 26, 2016, adjusted for amortization and other items for comparability with the actual results.

The following table reconciles the balanced statutory financial plan to the budget surplus reported on the statement of operations and accumulated surplus.

Surplus as per 10 year Financial Plan Bylaw No. 0195, 2016	\$ -
Adjust for non-operating items included in Financial Plan:	
Acquisition of tangible capital assets	10,108,731
Repayment of principal portion of long-term debt	1,625,505
Net transfers from reserves	<u>(915,986)</u>
	<u>10,818,250</u>
Adjust for operating items excluded in Financial Plan:	
Amortization (actual)	<u>(10,879,841)</u>
	<u>(10,879,841)</u>
Budget deficit as per the statement of operations and accumulated surplus	<u>\$ (61,591)</u>

City of West Kelowna
Schedule 1 - Schedule of tangible capital assets and work in progress
December 31, 2016

	Equipment							Engineering structures							Total
	Land	Buildings	Computer	Machinery	Office furniture & equipment	Small tools & equipment	Vehicles	Solid waste carts	Infrastructure	Roads	Sidewalks	Storm drains	Water Infrastructure	Sewer Infrastructure	
Cost, beginning of year	\$101,254,568	\$37,176,162	\$3,351,007	\$2,069,629	\$872,932	\$1,196,531	\$7,636,079	\$1,537,145	\$9,981,435	\$231,073,256	\$5,892,046	\$2,271,487	\$87,295,770	\$64,941,501	\$556,549,548
Additions	-	361,793	211,906	103,755	-	113,404	472,590	-	2,110,625	624,862	471,617	1,094,974	294,803	98,857	5,959,186
Disposals	-	-	-	-	-	-	(23,395)	-	-	-	-	-	-	-	(23,395)
Cost, end of year	101,254,568	37,537,955	3,562,913	2,173,384	872,932	1,309,935	8,085,274	1,537,145	12,092,060	231,698,118	6,363,663	3,366,461	87,590,573	65,040,358	562,485,339
Accumulated amortization, beginning of year	-	10,419,315	2,511,479	733,661	581,313	724,312	4,405,321	422,840	1,283,926	132,101,892	1,801,147	630,233	26,550,499	12,576,163	194,742,101
Amortization	-	916,379	442,691	185,264	23,201	91,994	423,251	61,487	659,956	5,118,056	127,284	227,944	1,583,782	1,018,552	10,879,841
Disposals	-	-	-	-	-	-	(23,395)	-	-	-	-	-	-	-	(23,395)
Accumulated amortization, end of year	-	11,335,694	2,954,170	918,925	604,514	816,306	4,805,177	484,327	1,943,882	137,219,948	1,928,431	858,177	28,134,281	13,594,715	205,598,547
Net book value, end of year	101,254,568	26,202,261	608,743	1,254,459	268,418	493,629	3,280,097	1,052,818	10,148,178	94,478,170	4,435,232	2,508,284	59,456,292	51,445,643	356,886,792
Work in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	202,726	213,221	\$ -	273,924	145,556	1,388,554	2,223,981
Tangible capital assets and work in progress	101,254,568	26,202,261	608,743	1,254,459	268,418	493,629	3,280,097	1,052,818	10,350,904	94,691,391	4,435,232	2,782,208	59,601,848	52,834,197	359,110,773

See accompanying notes to the financial statements.

City of West Kelowna
Schedule 2 - Schedule of accumulated surplus
December 31, 2016

	Balance, beginning of year	Transfer to	Transfer from	Interest	Balance, end of year
Reserves					
Capital - general	4,599,088	1,793,107	(2,178,966)	52,874	4,266,103
Capital - water	3,178,033	1,040,703	(347,443)	42,296	3,913,589
Capital - sewer	582,798	157,779	(103,957)	7,317	643,937
Community projects	3,476,318	1,355,667	(921,986)	44,317	3,954,316
Equipment replacement	3,075,081	856,361	(782,901)	37,342	3,185,883
Future expenses	508,902	1,582,849	(877,810)	10,337	1,224,278
Municipal facilities	1,879,892	1,585,192	-	32,070	3,497,154
Other	4,229,050	12,261,057	(12,234,255)	17,466	4,273,318
Policing	985,644	-	(200,000)	10,629	796,273
Property acquisition	1,566,849	-	-	18,802	1,585,651
Recreation	165,429	105,341	(2,810)	2,601	270,561
Road maintenance and snow clearing	604,032	-	-	7,249	611,281
Storm drainage	251,079	200,000	(92,115)	3,660	362,624
	<u>25,102,195</u>	<u>20,938,056</u>	<u>(17,742,243)</u>	<u>286,960</u>	<u>28,584,968</u>
Investment in non-financial assets					
Investment in tangible capital assets	<u>336,475,255</u>	<u>8,188,428</u>	<u>(10,879,841)</u>	<u>-</u>	<u>333,783,842</u>
Accumulated surplus	<u>\$ 361,577,450</u>	<u>\$ 29,126,484</u>	<u>\$ (28,622,084)</u>	<u>\$ 286,960</u>	<u>\$ 362,368,810</u>

City of West Kelowna
Schedule 3 - Schedule of segment disclosure
December 31, 2016

	General Fund								2016 Totals	2015 Totals
	General government services	Protective services	Transportation services	Environmental health & development services	Recreation & cultural services	Water services	Sewer services	Storm drainage		
Revenue										
Taxation-net	\$ 10,286,084	\$ 9,607,497	\$ 4,482,647	\$ 463,000	\$ 5,054,612	\$ -	\$ -	\$ 217,348	\$ 30,111,188	\$ 28,586,732
Sale of services and regulatory fees	-	1,624,342	643,043	2,619,052	1,297,060	6,219,876	4,764,797	-	17,168,170	16,810,232
Government transfers	2,538,917	197,849	330	-	-	1	45,558	-	2,782,655	5,171,512
Other	1,733,305	992,638	32,715	1,418,675	166,201	258,611	429,566	-	5,031,711	5,173,948
Total revenue	14,558,306	12,422,326	5,158,735	4,500,727	6,517,873	6,478,488	5,239,921	217,348	55,093,724	55,742,424
Expenses										
Amortization	8,169,886	-	-	43,170	-	1,648,234	1,018,552	-	10,879,842	10,667,327
Building and grounds maintenance	191,069	59,890	-	-	309,908	151,182	-	-	712,049	760,240
Civic grants	110,777	-	-	-	-	-	-	-	110,777	350,204
Contract services	828,269	212,289	2,293,396	2,222,075	1,424,241	631,771	3,477,458	144,508	11,234,007	10,513,159
Interest on long-term debt	533,916	-	-	-	-	344,776	548,014	-	1,426,706	1,652,341
Equipment maintenance and fuel	482,424	246,612	90,182	11,458	180,615	503,581	20,828	6,611	1,542,311	1,444,270
Library	-	-	-	-	1,410,926	-	-	-	1,410,926	1,346,416
Gain on disposal of tangible capital assets	-	-	-	-	-	-	-	-	-	-
RCMP E-Division Contract	-	3,349,116	-	-	-	-	-	-	3,349,116	3,624,445
Supplies, small tools and equipment	355,962	461,159	95,294	156,943	267,252	241,797	31,426	3,547	1,613,380	2,145,785
Transit	-	-	1,796,136	-	-	-	-	-	1,796,136	1,719,588
Utilities	188,731	117,797	247,853	4,524	638,904	527,756	63,047	-	1,788,612	1,513,864
Wages, benefits & professional development	3,573,260	7,270,755	635,875	2,163,054	2,479,740	1,916,274	336,862	62,682	18,438,502	17,377,237
Total expenses	14,434,294	11,717,618	5,158,736	4,601,224	6,711,586	5,965,371	5,496,187	217,348	54,302,364	53,114,876
Annual surplus (deficit) for the year	\$ 124,012	\$ 704,708	\$ -	\$ (100,497)	\$ (193,713)	\$ 513,117	\$ (256,266)	\$ -	\$ 791,360	\$ 2,627,548

See accompanying notes to the financial statements.