

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

The notes to the consolidated financial statements are an integral part of the statements. They explain the significant accounting and reporting policies and principles underlying these statements. They also provide relevant supplementary information and explanations which cannot be conveniently expressed in the consolidated financial statements.

The consolidated financial statements are the responsibility of and prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS). The preparation of these consolidated financial statements necessarily involves the use of estimates based on management’s judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

1. Significant accounting policies

Basis of presentation

The City of Kelowna's resources and operations are segregated into General, Airport, Wastewater Utility, Water Utility, Development Cost Charges and Statutory Reserve Funds for accounting and financial reporting purposes. The consolidated financial statements include all the accounts of these funds. All material interfund transactions and balances have been eliminated within the consolidated financial statements.

Accrual accounting

The accrual method for reporting revenues and expenses has been used. Revenues are recognized in the period in which the transactions or events occur that give rise to the revenues. Expenses are recognized in the period in which the goods or services are acquired and a liability is incurred.

Assets held for resale

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

Inventory

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

Municipal Finance Authority cash deposits and demand notes

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

	<u>2022</u>	<u>2021</u>
Cash deposits held by MFA	\$ 1,799	\$ 1,833
Demand notes held by MFA	<u>4,015</u>	<u>4,135</u>
	<u>\$ 5,814</u>	<u>\$ 5,968</u>

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Municipal pension plan

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

Reserves for future expenditures

Reserves for future expenditures are non-statutory reserves which represent an appropriation of surplus for specific purposes. Transfers to reserves for future expenditures include funds to finance incomplete projects and accumulations for specific purposes.

Statutory reserve funds

The use of these funds is restricted by the Community Charter and associated Municipal Bylaws. Statutory reserve funds are funded 100% by cash and portfolio investments.

Intangible assets

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

Interest capitalization

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

Work in progress

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Tangible capital assets

The City records tangible capital assets, including assets held as work in progress or capital lease, at cost in the period they were acquired or when the asset is put into use.

All tangible capital assets are valued at cost which includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset.

Assets owned by the City but not paid for by the City including contributions, dedications, gifts and donations, are valued at fair value at the date of contribution, dedication, gift or donation, where fair value is reasonably determinable.

Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair market value at the date of contribution, where fair value is reasonable determinable.

Amortization

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

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

Land and Work in Progress are not amortized.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Revenue recognition

Taxation revenue

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

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

Fees and charges revenue

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

Development Cost Charges (DCC) contributions

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

Government transfers

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

Investment income

The City's investments are disclosed in Note 3.

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

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

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

Expenses

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Liability for contaminated sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all of the following criteria are met:

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

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

In early 2020 the City acquired 1746 Water Street and accepted responsibility to clean up contamination found at the site. Clean up activities took place in 2020-2022 and further work will be undertaken in 2023 to remediate the site. This will consist of groundwater and vapour monitoring and sampling, drilling investigation and monitoring to assess plume stability and seasonality. A liability in the amount of \$185 (2021 - \$300) is based on contractor estimates of the remaining work required to be undertaken.

The City's liability of \$185 (2021 - \$330) for contaminated sites is included in Accounts payable.

Use of estimates

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

2. Future accounting changes

PS 3280 Asset retirement obligations

This section revises and replaces the existing Section PS 3270 Solid Waste Landfill Closure and Post-Closure Liability. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

PS 3160 Public private partnerships

This section establishes standards on how to account for and report public private partnerships. This section applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

PS 3400 Revenues

This section establishes standards on how to account for and report on revenue. This section applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

PS 3450 Financial instruments

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted. Adoption of this standard requires corresponding adoption of PS 1201 Financial Statement Presentation, PS 2601 Foreign Currency Translation and PS 3041 Portfolio Investments in the same fiscal period.

- **PS 1201 Financial Statement Presentation**

This section revises the general reporting principles and standards for the disclosure of information in the financial statements. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

- **PS 2601 Foreign Currency Translation**

This section revises and replaces the existing Section PS 2600 Foreign Currency Translation. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

- **PS 3041 Portfolio investments**

This section revises and replaces the existing Section PS 3040 Portfolio investments. This section applies to fiscal years beginning on or after April 1, 2022, with early adoption permitted.

Purchased Intangibles, PSG-8

This public sector guideline establishes standards on how to account for and report on purchased intangibles. This public sector guideline applies to fiscal years beginning on or after April 1, 2023, with early adoption permitted.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

3. Financial assets and liabilities

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with maturities of 90 days or less from the date of acquisition.

Accounts receivable

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

<u>Type of receivable</u>	<u>2022</u>	<u>2021</u>
Property tax	\$ 7,756	\$ 6,736
Trade receivables	19,891	14,295
Due from government	5,353	741
Due from provincial government	2,007	2,827
Due from regional government	93	80
Utilities	6,101	6,565
Deferred development cost charges	13,929	16,206
	<u>\$ 55,130</u>	<u>\$ 47,450</u>

Portfolio investments

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

<u>Type of investment</u>	<u>2022</u>	<u>2021</u>
Municipal Finance Authority investment funds	\$ 234,637	\$ 139,658
Provincial and bank issued bonds	84,675	98,401
Publicly traded shares	76,717	72,209
Guaranteed Investment Certificates and deposit notes	280,287	270,442
Total Portfolio investments	<u>\$ 676,316</u>	<u>\$ 580,710</u>

The quoted market value of the publicly traded shares at December 31, 2022 was \$115,298 (2021 - \$125,060).

Operating line of credit

The City has an operating line of credit with the Royal Bank of Canada for an authorized amount of \$5,000 bearing interest at bank prime rate less 0.50%. At December 31, 2022 the balance outstanding was \$nil (2021 - \$nil).

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Deferred revenue

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

Deferred Revenue
by Type

	<u>2021</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2022</u>
Tax prepayments	\$ 20,279	\$ 39,645	\$ -	\$ 38,205	\$ 21,719
Construction	17,717	2,994	131	1,795	19,047
Grants	876	1,301	7	964	1,220
Other	10,585	9,158	47	8,586	11,204
Local Area Service	4,288	337	-	218	4,407
Total	<u>\$ 53,745</u>	<u>\$ 53,435</u>	<u>\$ 185</u>	<u>\$ 49,768</u>	<u>\$ 57,597</u>

Deferred development cost charges (DCC)

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

	<u>2021</u>	<u>Receipts</u>	<u>Interest</u>	<u>Transfers Out</u>	<u>2022</u>
Parks Land/Development	\$ 36,465	\$ 19,257	\$ 777	\$ 14,673	\$ 41,826
Roads	74,191	12,050	1,506	1,366	86,381
Water	16,124	722	325	59	17,112
Wastewater	(2,195)	5,727	(36)	677	2,819
Drainage	-	3	-	-	3
Total Deferred DCC	<u>\$ 124,585</u>	<u>\$ 37,759</u>	<u>\$ 2,572</u>	<u>\$ 16,775</u>	<u>\$ 148,141</u>

Long term debt

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

	<u>Total</u>
2023	\$ 8,449
2024	8,739
2025	8,759
2026	7,630
2027	6,784
2028 and thereafter	30,559
Total	<u>\$ 70,920</u>

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Total outstanding debt issued was \$150,971 and total debt payable at December 31, 2022 was \$70,920 (2021 - \$81,617). Total interest paid in 2022 was \$3,762 (2021 - \$3,667).

Schedule 3 provides a breakdown of long term debt.

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

	2022	2022	2021	2021
	Work in	Tangible capital	Work in	Tangible capital
	progress	assets (NBV)	progress	assets (NBV)
Land	\$ -	\$ 369,612	\$ -	\$ 348,576
Land improvements	847	31,694	336	33,079
Buildings	18,894	188,637	9,323	187,870
Infrastructure	21,795	1,168,485	15,323	1,170,786
Machinery and equipment	1,953	83,317	1,886	81,857
	\$ 43,489	\$ 1,841,745	\$ 26,868	\$ 1,822,168

Contributions received in 2022 include:

<u>Type of contribution</u>	2022	2021
Land	\$ 1,718	\$ 1,838
Infrastructure	-	16
Total Contributed tangible capital assets	\$ 1,718	\$ 1,854

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

During the year, tangible capital assets with a cost of \$218 (2021 - \$540) were written off due to impairment.

During the year, no interest was capitalized \$nil (2021 - \$nil).

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

5. Accumulated surplus

	Reserves for Future Expenditures	Statutory Reserves	Fund Surpluses	Investment in Tangible Capital Assets	Total 2022	Total 2021
Accumulated surplus, beginning of year	\$ 309,973	\$ 116,022	\$ 68,724	\$ 1,776,944	\$ 2,271,663	\$ 2,203,167
Annual surplus (deficit)	8,994	2,466	113,253	(34,273)	90,440	68,496
Transfers	27,373	7,475	(34,848)	-	-	-
Acquisition of tangible capital assets, net	(14,419)	-	(57,580)	71,999	-	-
Repayment of long term debt	-	-	(8,808)	8,808	-	-
Accumulated surplus, end of year	\$ 331,921	\$ 125,963	\$ 80,741	\$ 1,823,478	\$ 2,362,103	\$ 2,271,663

Accumulated Surplus detail as follows:

Description	Balances, Beginning of Year	Transfer From	Transfer To	Annual Surplus	Balances, End of Year
<u>Non-Statutory Reserves</u>					
General Fund reserve	\$ 236,152	\$ 19,462	\$ 16,007	\$ 7,547	\$ 240,244
Airport Fund reserve	34,404	16,494	26,716	955	45,581
Waste Water Fund reserve	16,545	3,322	5,393	77	18,693
Water Fund reserve	22,872	2,110	6,226	415	27,403
	<u>309,973</u>	<u>41,388</u>	<u>54,342</u>	<u>8,994</u>	<u>331,921</u>
<u>Statutory Reserves</u>					
Parking reserve	8,717	2,470	4,992	167	11,406
Land reserve	6,947	3,369	4,706	148	8,432
Capital works, machinery and equipment reserve	100,358	30,374	27,276	1,983	99,243
Septic removal specified area reserve	-	-	6,714	168	6,882
	<u>116,022</u>	<u>36,213</u>	<u>43,688</u>	<u>2,466</u>	<u>125,963</u>
<u>Surplus by Fund</u>					
General Fund surplus	4,852	107,623	53,875	65,710	16,814
Airport Fund surplus	2,407	25,688	1,905	23,783	2,407
Waste Water Fund surplus	51,502	12,043	(1,626)	11,336	49,169
Water Fund surplus	9,963	12,921	2,885	12,424	12,351
Accumulated Surplus	<u>68,724</u>	<u>158,275</u>	<u>57,039</u>	<u>113,253</u>	<u>80,741</u>
<u>Investment in Non Financial Assets</u>					
Investment in tangible capital assets	<u>1,776,944</u>	<u>8,808</u>	<u>89,615</u>	<u>(34,273)</u>	<u>1,823,478</u>
Accumulated Surplus	\$ 2,271,663	\$ 244,684	\$ 244,684	\$ 90,440	\$ 2,362,103

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

6. Taxation

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

	<u>2022</u>	<u>2021</u>
Taxes collected		
Property taxes	\$ 285,928	\$ 268,596
Local improvement levies	142	146
Frontage tax - water	1,704	1,668
Specified sewer area recoveries	1,240	1,293
Grants in lieu of taxes	627	472
Levies - library	7,056	6,916
Levies - other	4,911	1,341
	<u>301,608</u>	<u>280,432</u>
Less transfers to other governments		
Province of BC (school taxes)	86,616	79,658
BC Assessment Authority	2,488	2,272
Regional Hospital District	13,884	13,630
Regional District of Central Okanagan	13,993	13,506
	<u>116,981</u>	<u>109,066</u>
Net taxes available for municipal purposes	<u>\$ 184,627</u>	<u>\$ 171,366</u>

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

7. Government transfers

Government transfers are the major source of transfers to the City. Government transfers received are for completed projects that meet the required criteria as set out by the Government body providing the funding. Government transfers do not include grants in lieu of taxes received from the Federal and Provincial governments. During the year \$386 (2021 - \$203) remained as deferred revenue for future expenditures. In 2022 the City received and recorded as revenue the following transfers:

	<u>2022</u>	<u>2021</u>
Operating transfers		
Federal	\$ 856	\$ 3,699
Provincial	24,277	27,403
Other governments	166	175
	<u>25,299</u>	<u>31,277</u>
Capital transfers		
Federal	11,234	760
Provincial	2,218	3,772
Other governments	-	20
	<u>13,452</u>	<u>4,552</u>
Total Government transfers	<u>\$ 38,751</u>	<u>\$ 35,829</u>

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

8. Contingent liabilities

Regional District of Central Okanagan

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

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

Pension liability

The employer and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2021, the plan has about 227,000 active members and approximately 118,000 retired members. Active members include approximately 42,000 contributors from local governments.

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

The most recent valuation for the Municipal Pension Plan as at December 31, 2021, indicated a \$3.8 billion funding surplus for basic pension benefits on a going concern basis.

The City of Kelowna paid \$8,224 (2021 - \$8,209) for employer contributions while employees contributed \$7,156 (2021 - \$6,834) to the plan in fiscal 2022.

The next valuation will be as at December 31, 2024, with results available in 2025.

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

Post employment benefits and compensated absences

The City of Kelowna does not accrue expenses for post-employment benefits and compensated absences. Post-employment benefits are benefits expected to be provided after employment but before retirement to employees and their beneficiaries. Compensated absences are benefits for employee absences for which employees will be paid (i.e. sick leave). City employees retiring do not receive any post-employment related benefits that either vests or accrues over the period of employment. Compensated absences: such as sick leave benefits do not accrue and are not vested. The City recognizes the expense for compensated absences when the event obligates the City to pay.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Legal actions

The City of Kelowna is currently engaged in certain legal actions, the outcome of which is not determinable at this time. Accordingly, no provision has been made in the accounts for these actions.

The amount of loss, if any, arising from these contingent liabilities will be recorded in the accounts in the period in which the loss is realized. The City of Kelowna has insurance policies and financial reserves to offset associated risks.

9. Commitments

Agreements, contracts and purchase orders

The City has entered into various agreements and contracts for services and construction with periods ranging from one to five years.

The City has purchase orders open as at December 31, 2022 which have not been recorded in the accounts. The balance of these open purchase orders is not determinable at this time. The funding for the majority of these obligations has been set aside in reserves for future expenditures. These amounts will be recorded in the accounts in the period the goods and services, to which they relate, are received.

Landfill closure and post closure costs

As required by PSAS and regulated by the Ministry of Environment & Climate Change Strategy, the City has agreed to obligations regarding the operation of the landfill site. These obligations include recognition of closure and post-closure liability. As currently engineered, and based on current waste disposal patterns, the landfill has a remaining life expectancy of 86 years. The estimated length of time needed for post-closure is 80 years.

The present value of future cash flows for the expected landfill closure and post-closure care costs is estimated to be \$30,660 based on a Design, Operations and Closure Plan (DOCP) completed in 2018.

The City's liability for these landfill closure and post-closure care cost expenditures is recognized as the landfill site's capacity is used. The reported liability of \$4,585 (2021 - \$4,429) represents the portion of the estimated total expenditure recognized as at December 31, 2022. The remaining capacity of the landfill site is estimated at 26.7 million tonnes which is 90% of the site's total capacity.

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

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

YMCA of Southern Interior BC loan guarantee agreement

The City has, under the terms of the partnering agreement between the City of Kelowna and YMCA of Southern Interior BC, guaranteed repayment in the event that the YMCA of Southern Interior BC defaults on a \$1,800 20-year loan issued in 2001. Under the agreement the City shall resume operation of the facility and assume responsibility for the repayment of the debt incurred by the YMCA of Southern Interior BC. During 2010 an amendment was made to the agreement for additional financing of \$700 for a 20-year term. Both loans have an interest rate of prime minus 0.5%. As at December 31, 2022, the outstanding loan balance was \$481 (2021 - \$537). The City does not expect to make any payments on the guarantee and no amounts have been accrued in the financial statements.

Multi-Purpose Facility Public/Private Partnership

The City of Kelowna, subject to the terms and conditions of the Tripartite Agreement between the City of Kelowna, Royal Bank of Canada and RG Arenas (Kelowna) Ltd., RG Properties Ltd., Prospero Canadian Land Investment Fund Ltd. group of companies, committed to the annual purchase of community use time at the Multi-Purpose Facility with the option to make a lump sum payment before the 15th day of one of year 6, 11, 16, 21 or 26, commencing with the year of substantial completion (November 10, 1999).

The City chose to exercise its option to make a lump sum payment of \$6,727 in 2019 (Year 21) as prepayment for community use time with no further amounts payable under the Tripartite Agreement until November 9, 2029.

The balance of \$4,709 (2021 - \$5,382) in prepaid community use time is included in Prepaid expenses.

Royal Canadian Mounted Police Services

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

10. Long term investments

Kelowna Developments Ltd.

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

RG Arenas (Kelowna) Ltd.

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

11. Letters of credit

In addition to the performance deposits reflected in cash balances, the City is holding irrevocable Letters of Credit in the amount of \$67,692 (2021 - \$68,816) 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 \$67,692, the City is holding irrevocable Letters of Credit in the amount of \$15,339 (2021 - \$18,155) which are received from developers to ensure payment of development cost charges in future years.

12. Trust funds

In accordance with PSAS, trust funds are not included in the City's consolidated financial statements. The City administers a Cemetery Maintenance Fund for the perpetual care and maintenance of the City owned and operated cemetery. As at December 31, 2022 the Trust Fund balance is \$3,526 (2021 - \$3,348).

13. Segmented information

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

General government

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

Protective services

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

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

Police services, provided by the Royal Canadian Mounted Police, include administration, crime investigation and prevention, traffic, prisoner custody and court liaison expenses.

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

Transportation services

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

Recreation and cultural services

Recreation and cultural services are comprised of services related to recreation, leisure and culture including administration and program costs as well as grounds and building maintenance. Facilities managed within this segment include parks and playgrounds, arenas, swimming pools, beaches, boat launches, stadiums as well as community and multi-age activity centers. Some of the larger facilities that the City owns and/or operates include the H2O Adventure & Fitness Centre, Parkinson Recreation Centre, Kelowna Community Theatre, Kelowna Museum, Kelowna Library, Kelowna Art Gallery, Capital News Centre and the Rotary Centre for the Arts.

Other services (Public Health/Environmental/Development services)

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

Airport services

The Airport, owned and operated by the City of Kelowna, provides quality services in a safe and cost effective manner in compliance with Federal regulations. The Airport is self-funded, provides a payment in lieu of property taxes to the City of Kelowna, and is accounted for in its own fund.

Wastewater services

Kelowna's wastewater system collects, conveys, treats and disposes of domestic wastewater (derived from the home) and industrial wastewater (resulting from business use, manufacturing and processing). The system currently services approximately 75% of Kelowna's population and expansion to unserved areas continues. Kelowna's wastewater system has a treatment capacity of 70 million litres per day. Wastewater Utility is accounted for in its own fund.

Water services

The Water Utility is responsible for planning, expansion, operation and maintenance of the City's Water Supply System and is one of four water suppliers operating within Kelowna's boundaries. The Water Utility is accounted for in its own fund.

Statutory reserves

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

14. Expenses by object

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

CITY OF KELOWNA
Notes to the Consolidated Financial Statements
December 31, 2022
(in thousands of dollars)

15. Budget data

The budget figures are from the Annual Five-Year Financial Plan Bylaw adopted before May 15th of each year. Subsequent amendments have been made by Council to reflect changes in the budget as required by law. Amortization of tangible capital assets was not included in the budget. The table below shows the reconciliation between the approved budget and the budget presented in these consolidated financial statements.

	<u>Budget Amount</u>
Revenues:	
Operating budget	\$ 364,353
Capital budget	57,799
	<u>422,152</u>
Expenses:	
Operating budget	290,444
Capital budget	271,456
	<u>561,900</u>
Annual deficit per approved budget	(139,748)
Add: tangible capital asset purchases	271,456
Annual surplus per statement of operations	<u>\$ 131,708</u>

16. Contractual rights

The City of Kelowna contractual rights arise from rights to receive payments from lease agreements. During 2020, the City of Kelowna entered into a long term lease agreement with Rise Commercial Developments Inc to lease 350 Doyle Avenue commencing in 2021. The long term lease is for \$7,000 to be received over 80 years with an option to renew for an additional 19 years.

As of December 31, 2022, the City of Kelowna received a \$2,700 prepayment with the remaining balance of \$4,300 in the form of non-cash consideration, estimated to be received in 2025.

17. Comparative figures

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

18. Subsequent event

Subsequent to December 31, 2022, amendments were made to the Airport Critical Infrastructure Program grant agreements with the Federal Government, which resulted in 100% of qualifying expenditures made prior to December 31, 2022 being reimbursed rather than 50%. This resulted in \$1.6 million in grants being received earlier than anticipated.

CITY OF KELOWNA
Schedule 1 - Tangible Capital Assets
For the Year Ended December 31, 2022
(in thousands of dollars)

	Machinery & Equipment						
	Land	Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computers	Subtotal Machinery & Equipment
Cost							
Balance, beginning of year	\$ 348,576	\$ 79,478	\$ 365,240	\$ 39,382	\$ 113,898	\$ 23,787	\$ 177,067
Add: additions during the year	21,040	35	7,454	5,348	3,159	997	9,504
Add: transfers to tangible capital assets	-	1,092	1,783	681	1,513	511	2,705
Less: assets held for resale	805	-	-	-	-	-	-
Less: disposals during the year	(809)	-	(31)	(1,470)	(87)	-	(1,557)
Balance, end of year	369,612	80,605	374,446	43,941	118,483	25,295	187,719
Accumulated Amortization							
Balance, beginning of year	-	46,399	177,370	23,240	56,672	15,298	95,210
Add: amortization	-	2,512	8,443	2,521	5,223	2,767	10,511
Less: accumulated amortization on disposals	-	-	(4)	(1,319)	-	-	(1,319)
Balance, end of year	-	48,911	185,809	24,442	61,895	18,065	104,402
Net Book Value of Tangible Capital Assets	\$ 369,612	\$ 31,694	\$ 188,637	\$ 19,499	\$ 56,588	\$ 7,230	\$ 83,317

	Infrastructure								
	Plant & Facilities	Roads, Lanes, Sidewalks & Bike Paths	Bridges, Tunnels & Overpasses	Underground, Overhead & Other Networks	Airport Infrastructure	Subtotal Infrastructure	Work In Progress	Total 2022	Total 2021
Cost									
Balance, beginning of year	\$ 228,881	\$ 589,774	\$ 37,002	\$ 1,210,190	\$ 89,450	\$ 2,155,297	\$ 26,868	\$ 3,152,526	\$ 3,083,123
Add: additions during the year	100	4,568	380	4,405	6,965	16,418	51,374	105,825	74,176
Add: transfers to tangible capital assets	5,552	5,917	-	17,510	194	29,173	(34,753)	-	-
Less: assets held for resale	-	-	-	-	-	-	-	805	(3,101)
Less: disposals during the year	(51)	-	-	(54)	-	(105)	-	(2,502)	(1,672)
Balance, end of year	234,482	600,259	37,382	1,232,051	96,609	2,200,783	43,489	3,256,654	3,152,526
Accumulated Amortization									
Balance, beginning of year	104,338	371,319	10,780	459,218	38,856	984,511	-	1,303,490	1,235,530
Add: amortization	7,769	17,895	580	18,314	3,229	47,787	-	69,253	68,824
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	(1,323)	(864)
Balance, end of year	112,107	389,214	11,360	477,532	42,085	1,032,298	-	1,371,420	1,303,490
Net Book Value of Tangible Capital Assets	\$ 122,375	\$ 211,045	\$ 26,022	\$ 754,519	\$ 54,524	\$ 1,168,485	\$ 43,489	\$ 1,885,234	\$ 1,849,036

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2022
(in thousands of dollars)

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation & Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2022</u>
Revenue										
Taxation	\$ 177,971	\$ -	\$ 142	\$ -	\$ -	\$ -	\$ 1,239	\$ 5,275	\$ -	\$ 184,627
Fees and charges	14,455	13,333	17,544	5,366	29,732	41,984	22,604	16,616	189	161,823
Interest earned	11,293	-	-	-	-	1,010	1,112	615	2,278	16,308
DCC contributions	-	-	1,366	14,673	-	-	677	59	-	16,775
Government transfers	8,758	4,171	13,306	3,980	195	7,784	557	-	-	38,751
Other capital contributions	3,105	-	-	425	-	575	485	564	-	5,154
Gain on disposal of tangible capital assets	297	-	1,075	2	-	-	-	-	-	1,374
	<u>215,879</u>	<u>17,504</u>	<u>33,433</u>	<u>24,446</u>	<u>29,927</u>	<u>51,353</u>	<u>26,674</u>	<u>23,129</u>	<u>2,467</u>	<u>424,812</u>
Expenses										
Salaries and benefits	25,977	37,296	10,179	12,898	8,972	5,529	4,627	4,248	-	109,726
Contract and professional services	10,943	1,423	30,767	7,844	8,469	2,489	1,275	615	-	63,825
RCMP Contract	-	36,172	-	-	-	-	-	-	-	36,172
Materials and supplies	7,807	2,369	7,405	12,409	1,024	8,192	2,981	1,575	-	43,762
Equipment	563	363	3,552	1,816	2,242	13	1,135	749	-	10,433
Allocations	(7,803)	(166)	174	(193)	3,574	1,507	1,662	1,251	-	6
Cost recoveries	(1,039)	(2,308)	(10,189)	(146)	(1,590)	(690)	(258)	(730)	-	(16,950)
Grants and external transfers	3,835	86	28	1,542	478	-	-	-	-	5,969
Utilities	204	350	1,380	2,342	247	680	1,534	1,397	-	8,134
Loss on disposal of tangible capital assets	19	-	43	-	-	-	-	-	-	62
Write down of tangible capital assets	26	-	-	52	102	38	-	-	-	218
Amortization of tangible capital assets	5,939	1,893	25,585	8,311	2,502	8,161	10,360	6,502	-	69,253
Total before Debt	<u>46,471</u>	<u>77,478</u>	<u>68,924</u>	<u>46,875</u>	<u>26,020</u>	<u>25,919</u>	<u>23,316</u>	<u>15,607</u>	<u>-</u>	<u>330,610</u>
Debt interest and fiscal services	2,628	-	-	-	-	584	282	268	-	3,762
Total operating expenses	<u>49,099</u>	<u>77,478</u>	<u>68,924</u>	<u>46,875</u>	<u>26,020</u>	<u>26,503</u>	<u>23,598</u>	<u>15,875</u>	<u>-</u>	<u>334,372</u>
Annual Surplus (Deficit)	<u>\$ 166,780</u>	<u>\$ (59,974)</u>	<u>\$ (35,491)</u>	<u>\$ (22,429)</u>	<u>\$ 3,907</u>	<u>\$ 24,850</u>	<u>\$ 3,076</u>	<u>\$ 7,254</u>	<u>\$ 2,467</u>	<u>\$ 90,440</u>

CITY OF KELOWNA
Schedule 2 - Segmented Information
For the Year Ended December 31, 2021
(in thousands of dollars)

	<u>General Government</u>	<u>Protective Services</u>	<u>Transportation</u>	<u>Recreation & Cultural</u>	<u>Other Services</u>	<u>Airport</u>	<u>Wastewater</u>	<u>Water</u>	<u>Statutory Reserves</u>	<u>2021</u>
Revenue										
Taxation	\$ 168,237	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ 1,293	\$ 1,690	\$ -	\$ 171,366
Fees and charges	19,799	13,179	14,493	3,618	30,942	21,814	19,765	18,506	69	142,185
Interest earned	8,612	-	-	-	-	184	827	225	1,692	11,540
DCC contributions	-	-	3,143	7,528	-	-	772	263	-	11,706
Government transfers	6,489	1,973	15,067	1,651	219	7,269	163	2,998	-	35,829
Other capital contributions	3,069	-	-	277	-	262	414	533	-	4,555
Gain on disposal of tangible capital assets	1,298	-	513	-	58	-	-	-	-	1,869
	<u>207,504</u>	<u>15,152</u>	<u>33,362</u>	<u>13,074</u>	<u>31,219</u>	<u>29,529</u>	<u>23,234</u>	<u>24,215</u>	<u>1,761</u>	<u>379,050</u>
Expenses										
Salaries and benefits	24,512	34,034	9,717	11,819	9,095	4,304	3,756	4,290	-	101,527
Contract and professional services	7,720	1,584	28,839	7,565	8,692	1,366	620	500	-	56,886
RCMP Contract	-	36,778	-	-	-	-	-	-	-	36,778
Materials and supplies	6,212	1,685	6,270	11,334	1,636	6,245	1,625	1,415	-	36,422
Equipment	671	386	3,361	1,794	2,540	10	854	784	-	10,400
Allocations	(7,069)	(145)	(216)	(193)	1,841	1,972	2,894	925	-	9
Cost recoveries	(1,449)	(2,690)	(9,610)	(147)	(1,457)	(609)	(240)	(636)	-	(16,838)
Grants and external transfers	2,668	84	5	1,777	390	-	-	9	-	4,933
Utilities	188	309	1,353	2,065	346	582	1,131	1,395	-	7,369
Loss on disposal of tangible capital assets	-	-	37	-	-	-	-	-	-	37
Write down of tangible capital assets	470	-	70	-	-	-	-	-	-	540
Amortization of tangible capital assets	5,543	1,885	26,752	8,087	2,297	7,544	10,429	6,287	-	68,824
Total before Debt	<u>39,466</u>	<u>73,910</u>	<u>66,578</u>	<u>44,101</u>	<u>25,380</u>	<u>21,414</u>	<u>21,069</u>	<u>14,969</u>	<u>-</u>	<u>306,887</u>
Debt interest and fiscal services	2,445	-	-	-	-	584	350	288	-	3,667
Total operating expenses	<u>41,911</u>	<u>73,910</u>	<u>66,578</u>	<u>44,101</u>	<u>25,380</u>	<u>21,998</u>	<u>21,419</u>	<u>15,257</u>	<u>-</u>	<u>310,554</u>
Annual Surplus (Deficit)	<u>\$ 165,593</u>	<u>\$ (58,758)</u>	<u>\$ (33,216)</u>	<u>\$ (31,027)</u>	<u>\$ 5,839</u>	<u>\$ 7,531</u>	<u>\$ 1,815</u>	<u>\$ 8,958</u>	<u>\$ 1,761</u>	<u>\$ 68,496</u>

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2022
(in thousands of dollars)

Long term debt - General Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2021</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2022</u>	<u>Sinking Fund Balance December 31, 2022</u>	<u>Current Interest Rate</u>
	Public Works					%
2022	Chapman Parkade	\$ 311	\$ 4,071	\$ -	\$ 4,071	2.25
	Local Improvements					
2035	Lawrence Ave LAS	253	345	238	107	3.00
	Recreation and Cultural					
2027	H2O Centre	10,607	27,500	9,008	18,492	3.90
2027	Kokanee Gymnastic	309	800	262	538	3.90
2028	H2O Centre	883	2,000	772	1,228	2.90
2035	Police Facilities	15,368	20,000	14,498	5,502	2.75
2035	Library Parkade Ext & Memorial Parkade	11,526	15,000	10,874	4,126	2.75
2036	Police Facilities	13,776	17,000	13,063	3,937	2.60
2037	Police Facilities	2,533	3,000	2,407	593	3.15
2038	Police Facilities	1,204	1,360	1,148	212	3.15
	Total Debt - General Fund	\$ 56,770	\$ 91,076	\$ 52,270	\$ 38,806	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2022
(in thousands of dollars)

Long term debt - Wastewater Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2021</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2022</u>	<u>Sinking Fund Balance December 31, 2022</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2022	Spec. Area 22A - Gerstmar	\$ 3	\$ 40	\$ -	\$ 40	0.65
2024	Spec. Area 21A - McKenzie Bench	295	1,350	201	1,149	2.25
2024	Spec. Area 22B - Vista Rd	17	80	12	68	2.25
2024	Spec. Area 22C - Hein Rd	58	266	40	226	2.25
2024	Spec. Area 22D - Elwyn Rd	32	149	22	127	2.25
2024	Spec. Area 22E - Dease Rd	21	96	14	82	2.25
2024	Spec. Area 22F - Mills Rd	75	342	51	291	2.25
2024	Spec. Area 29 - Campion Cambro	191	874	130	744	2.25
2024	Spec. Area 30 - Acland	80	364	54	310	2.25
2025	Spec. Area 20 - North Rutland	1,794	6,822	1,365	5,457	0.91
2025	Spec. Area 28A - Okaview	168	638	128	510	0.91
2028	Spec. Area 26 - Fisher Rd	893	2,021	780	1,241	2.90
2028	Spec. Area 34 - Country Rhodes	192	435	168	267	2.90
2028	Spec. Area 36 - Clifton	118	267	103	164	2.90
	Sewage Treatment Plant					
2031	Brandt's Creek Tradewaste Treatment	1,522	3,800	1,238	2,562	1.47
Total Debt - Wastewater Fund		\$ 5,459	\$ 17,544	\$ 4,306	\$ 13,238	

CITY OF KELOWNA
Schedule 3 - Long Term Debt
For the Year Ended December 31, 2022
(in thousands of dollars)

Long term debt - Water Fund

Debenture Debt

<u>Year of Maturity</u>	<u>Purpose</u>	<u>Debt Balance December 31, 2021</u>	<u>Amount of Issue</u>	<u>Debt Balance December 31, 2022</u>	<u>Sinking Fund Balance December 31, 2022</u>	<u>Current Interest Rate</u>
	Specified Area Programs					%
2023	Spec Area 16 - Byrns	\$ 6	\$ 39	\$ 3	\$ 36	2.85
2024	Spec Area 18 - Lakeshore	5	24	4	20	2.25
2028	Spec Area 26 - Fisher Rd	131	297	115	182	2.90
2038	Local Area Service - Aspen Rd	42	48	41	7	3.20
2042	Local Area Service - Somid	-	441	441	-	3.36
	Water Improvement Programs					
2028	Cedar Creek Pump Station	3,346	7,577	2,923	4,654	2.90
2031	Poplar Point Pump Station Upgrade	1,195	2,000	1,091	909	1.47
	Total Debt - Water Fund	\$ 4,725	\$ 10,426	\$ 4,618	\$ 5,808	

Long term debt - Airport Fund

Debenture Debt

2025	Airport Expansion	\$ 3,312	\$ 7,500	\$ 2,527	\$ 4,973	2.75
2026	Airport Expansion	1,900	3,500	1,546	1,954	2.60
2026	Airport Expansion	1,611	3,000	1,307	1,693	2.10
2027	Airport Expansion	5,080	8,000	4,295	3,705	2.80
	Total Debt - Airport Fund	\$ 11,903	\$ 22,000	\$ 9,675	\$ 12,325	

Long term debt - Other

2022	General Land - Diamond Mountain	\$ 1,225	\$ 6,900	\$ -		nil
2023	General Land - Dewdney Park	1,476	2,952	-		nil
2029	Airport - Enterprise Rental Car Kiosk	59	73	51		nil
	Total Debt - Other	\$ 2,760	\$ 9,925	\$ 51		

Total City Long Term Debt	\$ 81,617	\$ 150,971	\$ 70,920
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CITY OF KELOWNA
Schedule 4 - COVID-19 Safe Restart Grant for Local Governments
For the Year Ended December 31, 2022
(in thousands of dollars)

The COVID-19 Safe Restart Grant was received from the Provincial Government in 2020. The schedule below provides disclosure of funds received, spent and remaining as well as any interest earned on unused funds. A balance at the end of the year represents unused funds received and is included in the General fund reserve.

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 1,716	\$ 5,403
Interest earned	37	28
Less funds used to support:		
Gaming revenue losses	-	(2,436)
Corporate preparedness planning	-	(536)
Community services revenue losses	(204)	(743)
Technological costs	(210)	-
Support for vulnerable persons	(285)	-
Enforcement and protective services	(684)	-
	<u>(1,346)</u>	<u>(3,687)</u>
Balance, end of year	<u>\$ 370</u>	<u>\$ 1,716</u>



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