



AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED,
DECEMBER 31, 2008

THE CORPORATION OF THE CITY OF VERNON
Audited Financial Statements

Year Ended December 31, 2008



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Auditors' Report

To the Members of Council of
THE CORPORATION OF THE CITY OF VERNON

We have audited the consolidated statement of financial position of The Corporation of the City of Vernon as at December 31, 2008 and the consolidated statements of financial activities, segmented financial activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its financial activities and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Vernon, British Columbia
March 6, 2009

THE CORPORATION OF THE CITY OF VERNON
Consolidated Statement of Financial Position
Statement A



December 31 (in thousands of dollars)	2008	2007
Financial Assets		
Cash and investments	\$ 46,326	\$ 42,750
Accounts receivable (Note 2)	12,806	12,088
Prepaid expenses	449	552
Municipal Finance Authority deposits	2,594	3,050
	62,175	58,440
Liabilities		
Bank advances	-	312
Accounts payable and accrued liabilities (Note 3)	15,250	14,711
Municipal Finance Authority reserves	2,594	3,050
Long-term debt (Note 10)	43,865	46,785
Deferred charges (Schedule 6)	16,657	13,809
	78,366	78,667
Net Debt	(16,191)	(20,227)
Physical Assets		
Property held for resale (Note 15)	847	-
Tangible capital assets (Note 4)	225,879	214,042
	226,726	214,042
NET POSITION	\$ 210,535	\$ 193,815
Financial equity:		
Balance, beginning of year	\$ 26,558	\$ 26,031
Increase / (decrease) in Operating Funds	2,352	282
Increase / (decrease) in Capital Funds	187	312
Increase / (decrease) in Statutory Reserve Funds	(1,423)	(67)
Balance, end of year (Note 5)	27,674	26,558
Equity in property held for resale:		
Balance, beginning of year	-	-
Increase in equity in property held for resale (Note 15)	847	-
Balance, end of year	847	-
Equity in tangible capital assets:		
Balance, beginning of year	167,257	150,453
Increase in equity in tangible capital assets	14,757	16,804
Balance, end of year (Note 6)	182,014	167,257
MUNICIPAL POSITION	\$ 210,535	\$ 193,815

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Approved by:

 Manager of Finance

THE CORPORATION OF THE CITY OF VERNON

Consolidated Statement of Financial Activities

Statement B



For the Year Ended December 31 (in thousands of dollars)	Budget 2008	Actual 2008	Actual 2007
Revenue			
Taxation (Note 7)	\$ 21,881	\$ 22,071	\$ 20,152
Services provided to other local governments	1,912	2,145	1,526
Government grants	4,728	4,551	4,215
Sales of services:			
Licences and permits	2,049	1,885	1,856
Sewer fees and charges	8,829	8,453	8,591
Environmental health	1,438	1,486	1,387
Airport	673	1,008	726
Public transit and parking	1,733	1,569	1,345
Development fees	267	324	371
Fines and rentals	704	809	638
Other	990	1,447	1,202
Fiscal services:			
Penalties and interest on taxes	230	299	282
Interest on investments	1,528	2,093	2,688
Interest on overdue trade receivables & utilities	37	73	67
Natural gas system lease and franchise agreement	2,992	2,997	3,023
Proceeds of land sales & insurance recoveries	-	1,666	103
Capital contributions from developers	3,839	2,436	3,579
	<u>53,830</u>	<u>55,312</u>	<u>51,751</u>
Expenditures			
General government and common services	6,590	5,922	5,557
Protective services:			
Police	8,806	7,702	7,048
Fire and rescue	3,272	3,419	2,949
Emergency measures	105	63	84
Planning & building inspection	1,499	1,425	1,299
Engineering	1,492	1,027	1,252
Operations:			
Road transportation	7,348	7,028	5,282
Airport	805	1,042	816
Storm drainage	268	200	183
Solid waste & recycling	1,272	1,325	1,275
Cemetery	189	207	272
Sanitary sewer	3,964	3,500	3,310
Other	1,167	1,156	915
Bylaw enforcement & parking control	1,005	1,001	930
Fiscal services:			
Interest on long-term debt	3,348	3,029	3,392
Other interest and bank charges	500	225	292
Acquisitions of tangible capital assets and property held for resale	16,874	13,006	13,355
	<u>58,504</u>	<u>51,277</u>	<u>48,211</u>
Net revenues for the year	(4,674)	4,035	3,540
Principal payments on long-term debt	2,161	2,919	3,013
Change in fund balances	\$ (6,835)	\$ 1,116	\$ 527

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE CORPORATION OF THE CITY OF VERNON
Consolidated Statement of Segmented Financial Activities
Statement C



For the Year Ended December 31, 2008 (in thousands of dollars)	Revenue	Expense	Net Revenue/ (Net Expense)
General Government:			
Legislative & Grants to Organizations	\$ -	\$ 666	\$ (666)
Corporate Administration	76	855	(779)
Tourism	-	14	(14)
City Clerk's Office	10	399	(389)
Finance & Purchasing	459	1,652	(1,193)
Human Resources & Occupational Health and Safety	-	749	(749)
Information Services	11	1,403	(1,392)
Civic Buildings	279	544	(265)
	<hr/> 835	<hr/> 6,282	<hr/> (5,447)
Protective Services:			
Police	572	7,936	(7,364)
Fire & Rescue	3,790	3,439	351
Emergency Measures	21	63	(42)
	<hr/> 4,383	<hr/> 11,438	<hr/> (7,055)
Planning & Building Inspection:			
Planning	407	886	(479)
Building & Licence Inspection	1,871	556	1,315
	<hr/> 2,278	<hr/> 1,442	<hr/> 836
Engineering Services			
	260	1,045	(785)
Operations:			
Roads & Sidewalks	2,715	10,272	(7,557)
Airport	1,008	1,093	(85)
Storm Drainage	161	459	(298)
Sanitary Sewer	10,123	7,271	2,852
Public Transit	2,073	2,769	(696)
Solid Waste & Recycling	1,327	1,325	2
Cemetery	176	207	(31)
Other	414	1,296	(882)
	<hr/> 17,997	<hr/> 24,692	<hr/> (6,695)
Parking & Bylaw Enforcement			
	1,087	1,024	63
Wholly-Owned Subsidiaries:			
Hesperia Development Corp.	-	647	(647)
Captain Bailey Way Development Corp.	-	119	(119)
	<hr/> -	<hr/> 766	<hr/> (766)
Non-Segmented Items (unallocated)			
	<hr/> 28,472	<hr/> 4,588	<hr/> 23,884
Total	<hr/> \$ 55,312	<hr/> \$ 51,277	<hr/> \$ 4,035

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE CORPORATION OF THE CITY OF VERNON
Consolidated Statement of Cash Flows
 Statement D



<u>December 31 (in thousands of dollars)</u>	<u>2008</u>	<u>2007</u>
Cash provided by (used in):		
Operating activities:		
Net revenues for the year	\$ 4,035	\$ 3,540
Changes in non-cash working capital items:		
Receivables	(719)	(3,226)
Prepaid expenses	104	(495)
Payables	247	(2,695)
Deferred charges	2,828	(351)
	<u>6,495</u>	<u>(3,227)</u>
Financing activities:		
Principal payments on long-term debt	(2,919)	(3,013)
	<u>(2,919)</u>	<u>(3,013)</u>
Increase (decrease) in cash and investments	3,576	(6,240)
Cash and investments, beginning of year	42,750	48,990
<u>Cash and investments, end of year</u>	<u>\$ 46,326</u>	<u>\$ 42,750</u>
Cash and investments are represented by:		
Cash on hand and on deposit	\$ 3,929	\$ 5,018
Investments in Municipal Finance Authority of B.C. - Money Market Fund	34,470	30,308
Investments in Municipal Finance Authority of B.C. - Bond Fund	7,927	7,424
	<u>\$ 46,326</u>	<u>\$ 42,750</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.



Year Ended December 31, 2008

1. Significant Accounting Policies:

a) Basis of Accounting:

The consolidated financial statements of the City of Vernon are prepared by management in accordance with local government accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. In line with the standards, the resources and operations of the City are segregated into various funds for accounting and financial reporting purposes, each being treated as a separate entity with responsibility for the stewardship of the assets allocated to it. The accrual method for reporting revenues and expenses has been used.

b) Basis of Consolidation:

The consolidated statements include all funds of the City and the Wholly-Owned Subsidiaries. Inter-fund revenues, expenses, assets, and liabilities have been eliminated.

c) Measurement Uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d) Tangible Capital Assets:

Tangible capital assets are recorded at cost and are not subject to amortization. Donated or contributed tangible capitals assets are recorded at fair market value at the time of transfer.

e) Property Held for Resale:

Property held for resale is valued at the lower of cost and net realizable value. Costs of inventory include the original land costs and design, engineering and other related costs associated with holding the property.

f) Debt Charges:

Debt principal payments are charged against current operating revenue in the periods in which they are paid. Interest is recorded on an accrued basis.

g) Deferred Charges:

Deferred charges are comprised of levied and unused Development Cost Charges; Sidewalk Gifting funds; Foothills/Silver Star Road Development funds; and Gas Tax / Public Transit transfer payments. These funds are recorded as revenue in the year they are used to fund tangible capital asset additions or eligible operating expenditures.

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

h) Reserves:

Statutory reserve funds are used for future capital expenses as designated by bylaw and City Council. Reserve accounts for future expenses are amounts set aside from past and current operations and are not governed by bylaw.

i) Government Transfers:

Government transfers are recognized in the consolidated statements as revenue in the period in which the event giving rise to the transfer occurs, provided the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

j) Financial Instruments:

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

k) Budget Figures:

The budget figures are from the annual Financial Plan Bylaw. They have been reallocated to conform to PSAB financial statement presentation requirements. These figures have not been subjected to the same auditing procedures applied to the actual financial statement figures and are presented for information purposes only. Subsequent amendments have been made by City Council to reflect changes in the budget as required by law. Such amendments are not reflected in the financial statement budget figures.

l) Comparative Figures:

Some of the comparative figures have been modified to conform to the financial statement presentation adopted in the current year.

m) PSAB Section 3150 Initiative (Tangible Capital Assets) Compliance Update:

Progress began in 2007 to prepare for the coming reporting requirements of this initiative from the Public Sector Accounting Board. Significant work took place in 2008 consisting of research of existing capital asset databases and determination of historical values. It is estimated that 80% of the project was complete as of December 31, 2008. However, the data currently in place has yet to receive final approval from all applicable staff and in some cases – a final review from independent sources. Completion and full compliance will take place in 2009.

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

n) PSAB Section 2700 Initiative (Segment Disclosures):

Beginning in the 2008 fiscal year, segmented financial information is presented in groups of distinguishable activities in a similar approach to the City's internally reported cost centres. These segments are structured in a fashion to assist users of financial statements in understanding and identifying the resources allocated to support commonly recognized functions of the City. Segments are identified primarily by function and secondarily by organizational relationship. Revenues are only allocated to segments when there is a direct cause and effect relationship to the expenses of those segments. Revenues that cannot be reasonably allocated in such a manner are unallocated and are considered common to the City as a whole.

2. Accounts Receivable (in thousands of dollars):

	2008	2007
Property taxes	\$ 1,110	\$ 739
Utility billings	4,621	4,379
Trade accounts	5,342	2,404
Other governments	1,321	3,371
Other receivables	412	1,195
	<u>\$ 12,806</u>	<u>\$ 12,088</u>

3. Accounts Payable and Accrued Liabilities (in thousands of dollars):

	2008	2007
Trade payables	\$ 7,066	\$ 7,112
Prepaid property taxes	2,281	1,822
Salaries, wages and related costs	2,159	2,125
Deposits and holdbacks	2,678	2,944
Prepaid fees & charges	281	107
Other accrued liabilities	785	601
	<u>\$ 15,250</u>	<u>\$ 14,711</u>

4. Tangible Capital Assets (in thousands of dollars):

	2008	2007
Engineering structures	\$ 158,168	\$ 149,051
Buildings	13,995	12,456
Machinery & equipment	16,787	15,537
Capital leases	20,958	21,681
Land	15,971	15,317
	<u>\$ 225,879</u>	<u>\$ 214,042</u>

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

5. Financial Equity (in thousands of dollars):

	2008	2007
Operating Funds	\$ 23,406	\$ 21,054
Capital Funds	2,174	1,987
Statutory Reserve Funds	2,094	3,517
	<u>\$ 27,674</u>	<u>\$ 26,558</u>

6. Equity in Tangible Capital Assets (in thousands of dollars):

	2008	2007
General Capital Fund	\$ 115,793	\$ 104,720
Sewer Capital Fund	66,102	62,537
Wholly-Owned Subsidiaries	119	-
	<u>\$ 182,014</u>	<u>\$ 167,257</u>

Note 14

7. Property Tax Revenue

Total tax revenue net of transfers of taxes collected for other governments and agencies were as follows (in thousands of dollars):

	2008	2007
Specific assessments:		
Residential	\$ 13,245	\$ 12,208
Business	6,226	5,626
Utilities	178	162
Light industrial	288	261
Non-profit	68	65
Farm land	2	2
	<u>20,007</u>	<u>18,324</u>
Grants in lieu of taxes	990	739
Specified area taxes	1,074	1,089
	<u>\$ 22,071</u>	<u>\$ 20,152</u>

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

8. Cemetery Care Trust Fund

The City owns and maintains Pleasant Valley Cemetery. Pursuant to provincial legislation, a Cemetery Care Trust Fund was established to ensure continuity of cemetery maintenance. A portion of all plot sales and memorial setting fees is credited to this Fund. Although the Fund balance is not included in the consolidated financial statements, all investment earnings during the year are transferred into general revenue as permitted by law.

Trust Fund Continuity (in thousands of dollars)	2008	2007
Balance, beginning of year	\$ 569	\$ 548
Interest earned	17	17
Proceeds from plot sales	25	21
Transfers to General Revenue Fund for maintenance	(17)	(17)
Balance, end of year	\$ 594	\$ 569

9. Expenses by Object (in thousands of dollars):

	2008	2007
Salaries, wages and employment benefits	\$ 15,641	\$ 13,723
Supplies, equipment and infrastructure	14,497	14,246
Contracted services	13,705	11,851
Debt servicing and bank charges	3,060	3,392
Utilities, telephone and insurance	1,930	1,790
Other	2,444	3,209
	\$ 51,277	\$ 48,211

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

10. Long-term Debt (in thousands of dollars)

Debt Bylaw No.	Purpose of Bylaw	Interest Rate %	Year of Maturity	2008 Balance	2007 Balance
<u>General Capital Fund:</u>					
3602	Police Building Expansion	4.75%	2011	\$ 546	\$ 711
4172	48th Ave Specified Area	5.99%	2014	221	250
4717	BC Gas Lease	5.25%	2019	18,051	19,261
4718	BC Gas Lease	9.85%	2037	1,213	1,221
4624	Downtown Revitalization	4.15%	2020	328	349
4625	Downtown Revitalization	4.15%	2020	108	115
4728	Downtown Revitalization	4.15%	2020	178	189
4739	Various	4.15%	2020	3,946	4,199
				<u>24,591</u>	<u>26,295</u>
<u>Sewer Capital Fund:</u>					
3830	Misc Sewer	8.75%	2008	-	408
3831	Misc Sewer	8.75%	2008	-	77
3810	Misc Sewer	8.75%	2008	-	73
3875	Okanagan Landing	4.00%	2011	78	101
3066	Misc Sewer	6.10%	2012	44	54
4172	48th Ave Specified Area	5.99%	2014	238	271
1214BJ	Blue Jay Specified Area	5.99%	2017	57	62
1214BJ	Blue Jay Specified Area	5.99%	2019	257	275
4889	Reclaimed Water Line	4.15%	2020	895	953
4680	Treatment Plant Phase 1	6.06%	2027	4,288	4,421
4680	Treatment Plant Phase 2	4.90%	2028	1,802	1,854
4791	Water Reclamation Plant	4.15%	2030	11,615	11,941
				<u>19,274</u>	<u>20,490</u>
Total Long-term Debt				<u>\$ 43,865</u>	<u>\$ 46,785</u>

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

11. Future Principal Payments and Sinking Fund Additions on Existing Debt (in thousands of dollars)

<u>Year</u>	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
2009	\$ 1,323	\$ 558	\$ 1,881
2010	1,324	558	1,882
2011	1,324	558	1,882
2012	1,250	544	1,794
2013	1,251	539	1,790
2014 & thereafter	8,760	7,707	16,467
	<u>15,232</u>	<u>10,464</u>	<u>25,696</u>
Actuarial Additions	9,359	8,810	18,169
	<u>\$ 24,591</u>	<u>\$ 19,274</u>	<u>\$ 43,865</u>

12. Natural Gas System Lease Agreements

The City has entered into an agreement with B.C. Gas Utility Ltd (now known as Terasen Gas Inc. and hereafter referred to as "Terasen") which has resulted in the creation of the Natural Gas Legacy Fund.

a) Capital Leases:

Under the terms of the agreement, the City has entered into a 35-year capital lease commencing December 1, 2002 for the natural gas distribution system within the City boundary. The City has prepaid \$23,750,000 of the capital lease obligation and has financed the prepayment through debenture debt. The remaining obligation, which is included in long-term debt, will be paid with annual lease payments of \$127,884 including interest based on Terasen-approved pre-tax weighted average cost of capital of 9.25%.

b) Operating Lease:

The City has also entered into a 17-year operating lease that commenced December 1, 2002 whereby the City leases back to Terasen the operation of the gas distribution system. Under the operating lease, Terasen is obligated to make annual lease payments to the City that are calculated by a formula specified in the agreement which is based on the total annual revenue generated by the transaction. The lease revenue in 2008 was \$2,417,767 (\$2,471,071 in 2007). At the end of the 17-year term, Terasen has the option of making a termination payment equal to the unamortized portion of the City's \$23,750,000 prepayment under the capital lease, which is estimated to be \$12,214,000 or negotiate a new 18-year operating lease with a continuation of the annual lease payments which existed under the previous 17-year operating lease agreement.



Year Ended December 31, 2008

13. Long-term Agreements with North Okanagan Regional District and the District of Coldstream

The City has entered into a 10-year agreement with the North Okanagan Regional District for the operation of the entire water system owned by the Regional District. This agreement was entered into following a successful alternate approval process. Subsequently, the City has entered into a 10-year agreement with the District of Coldstream whereby the District operates that portion of the water system that is located within and east of the District boundary. This agreement was also subject to a successful alternate approval process. Under these agreements, the City and the District are responsible for the day-to-day operation of the water system, and are wholly reimbursed by the Regional District for the operating expenses made to undertake these duties. The agreements expire January 31, 2013.

14. Wholly-Owned Subsidiaries

In 2007, two new City-owned corporations were created – the Hesperia Development Corporation, and the Captain Bailey Way Development Corporation. These corporations were created for purposes of development within two geographical areas. All revenues, expenses, assets, and liabilities of these corporations are included in the Consolidated Statements.

15. Property Held for Resale

In 2008, development activity began for the Hesperia Development Corporation. The accumulated value of \$847,000 is comprised of the historical cost of the land plus all design, engineering, and related costs incurred to date.

16. Federal Gas Tax & Public Transit Funds

Gas Tax and Public Transit funding is provided by the Government of Canada. The use of the funding is established by a funding agreement between the City; the Union of British Columbia Municipalities; and the Government of Canada. Gas Tax funding may be used towards designated public transit (including road rehabilitation), community energy, water, wastewater, solid waste, and capacity-building projects, as specified in the funding agreement. Any unused funds (including interest earned) are recorded as a deferred charge.

17. Contingent Liabilities

a) North Okanagan Regional District:

The City is responsible as a member of the Regional District for its proportional share of operating deficits related to functions in which it participates. Under the provisions of the *Local Government Act*, the Regional District's debt is a joint and several liability of the Regional District and each of its member municipalities including the City.

b) Municipal Finance Authority:

Municipal Finance Authority debentures are covered by a loan agreement with the Municipal Finance Authority which provides that, if at any time the payments provided for in the agreement are not sufficient to meet the authority's obligations in respect of such borrowings, the resulting deficiency becomes a proportional liability of each member local government including the City.

THE CORPORATION OF THE CITY OF VERNON
Notes to the Consolidated Financial Statements



Year Ended December 31, 2008

c) Municipal Insurance Association:

In 1987, the City entered into a self liability insurance plan with several other local governments in British Columbia forming the Municipal Insurance Association of B.C. The City is obligated under the plan to pay a percentage of its fellow insured's losses. The City pays an annual premium, which is anticipated to be adequate to cover any losses incurred.

d) Legal Claims:

The City has been named defendant in several uninsured legal actions. No reserve or liability has been recorded regarding any of the legal actions and any possible claims because the amount of loss, if any, is not determinable. Settlement, if any, made with respect to these actions, would be expected to be accounted for as a charge to expenses in the period in which realization is known.

e) 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 overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has approximately 150,000 active members and approximately 54,000 retired members. Active members include approximately 32,000 contributors from local government.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at December 31, 2006 indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the surplus to individual employers. The City of Vernon paid \$1,031,748 for employer contributions to the Plan in 2008 (\$933,437 in 2007).

f) Letter of Credit – Hesperia Property:

In 2007, the City issued an Irrevocable Letter of Credit in favour of the Agricultural Land Commission (ALC) of British Columbia as a guarantee to fund works required by the ALC as a condition of the property being removed from the Agricultural Land Reserve. The property is being developed by the wholly-owned subsidiary, the Hesperia Development Corporation. The Letter of Credit will be replaced by the newly created subsidiary once financing arrangements are in place. The amount of the Letter of Credit is \$ 716,000. As of December 31, 2008, no drawing on the Letter of Credit has occurred.



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Auditors' Report on Supplementary Financial Information

To the Members of Council of
THE CORPORATION OF THE CITY OF VERNON

We have audited and reported separately herein on the consolidated financial statements of the Corporation as at and for the year ended December 31, 2008.

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements of the Corporation taken as a whole. The supplementary information on the financial position, financial activities of the operations of individual funds and deferred charges for the year ended December 31, 2008 included in the following supporting schedules are presented for the purposes of additional analysis. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

BDO Dunwoody LLP

Chartered Accountants

Vernon, British Columbia
March 6, 2009

THE CORPORATION OF THE CITY OF VERNON
Revenue Funds Statement of Financial Position
 Schedule 1



December 31 (in thousands of dollars)	General Revenue Fund		Sewer Revenue Fund	
	2008	2007	2008	2007
Financial Assets				
Cash and investments	\$ 35,284	\$ 30,414	\$ -	\$ -
Due from other funds	47	257	7,438	5,315
Accounts receivable	13,919	12,652	-	990
Prepaid expenses	449	552	-	-
Municipal Finance Authority deposits	1,727	1,707	867	1,343
	<u>51,426</u>	<u>45,582</u>	<u>8,305</u>	<u>7,648</u>
Liabilities				
Bank advances	-	311	-	-
Due to other funds	16,381	13,169	-	-
Accounts payable and accrued liabilities	15,000	14,467	177	245
Municipal Finance Authority reserves	1,727	1,707	867	1,343
Deferred charges	1,476	1,014	-	-
	<u>34,584</u>	<u>30,668</u>	<u>1,044</u>	<u>1,588</u>
NET POSITION	<u>\$ 16,842</u>	<u>\$ 14,914</u>	<u>\$ 7,261</u>	<u>\$ 6,060</u>
Financial Equity, beginning of year				
	14,914	15,946	6,060	4,669
Add: Excess of revenue over expenditure	-	-	3	212
Add: Additions to reserves	7,480	6,850	2,319	2,291
Less: Deficiency of revenue over expenditure	-	(20)	-	-
Less: Appropriation from prior years' surplus	(124)	-	-	-
Less: Deductions from reserves	(5,428)	(7,862)	(1,121)	(1,112)
FUND POSITION	<u>\$ 16,842</u>	<u>\$ 14,914</u>	<u>\$ 7,261</u>	<u>\$ 6,060</u>

THE CORPORATION OF THE CITY OF VERNON
Statement of General Revenue Fund Financial Activities
 Schedule 2



For the Year Ended December 31 (in thousands of dollars)	Budget 2008	Actual 2008	Actual 2007
Revenue			
Taxation	\$ 21,881	\$ 21,776	\$ 19,859
Services provided to other local governments	1,396	1,376	971
Government grants	4,057	3,876	3,331
Sale of services	7,853	8,453	7,481
Fiscal services	1,749	1,768	2,001
Natural gas system lease and franchise agreement	2,992	2,997	3,023
Transfers from own funds	2,693	2,926	2,832
	<u>42,621</u>	<u>43,172</u>	<u>39,498</u>
Expenditures			
General government and common services	6,020	5,524	5,187
Protective services:			
Police	8,806	7,771	7,048
Fire and rescue	3,272	3,418	2,948
Emergency measures	105	63	84
Planning & building inspection	1,744	1,548	1,299
Engineering	1,492	1,030	1,252
Operations:			
Road transportation	7,348	7,027	5,282
Airport	805	1,042	816
Storm drainage	268	200	183
Solid waste & recycling	1,272	1,325	1,275
Cemetery	189	207	272
Other	808	728	618
Bylaw enforcement & parking control	1,005	1,007	930
Fiscal services:			
Interest on long-term debt	1,807	1,807	1,807
Other interest and bank charges	500	225	293
Transfers to own funds:			
General operating reserves	1,443	5,713	6,269
General Capital Fund	4,415	2,833	2,249
City-owned Subsidiary Corporations	-	-	80
	<u>41,299</u>	<u>41,468</u>	<u>37,892</u>
Net revenues (expenditures) for the year	1,322	1,704	1,606
Long-term debt issued	-	-	-
Principal payments on long-term debt (including actuarial adjustments)	1,322	1,704	1,626
Change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20)</u>

THE CORPORATION OF THE CITY OF VERNON
Statement of Sewer Revenue Fund Financial Activities
Schedule 3



For the Year Ended December 31 (in thousands of dollars)	Budget 2008	Actual 2008	Actual 2007
Revenue			
Taxation	\$ -	\$ 295	\$ 293
Services provided to other local governments	516	769	555
Government grants	175	261	55
User fees & charges	8,830	8,520	8,591
Fiscal services	46	376	459
Transfers from own funds	731	731	551
	10,298	10,952	10,504
Expenditures			
Common services	211	180	201
Operations:			
Collection system	671	617	524
Treatment system	2,420	2,372	2,287
Disposal system	705	660	669
Pump stations	641	373	298
Fiscal services:			
Interest on long-term debt	1,541	1,222	1,584
Other interest and bank charges	-	-	-
Transfers to own funds:			
Sewer operating reserves	339	2,319	2,292
Sewer Capital Fund	2,931	1,991	1,051
	9,459	9,734	8,906
Net revenues (expenditures) for the year	839	1,218	1,598
Long-term debt issued	-	-	-
Principal payments on long-term debt (including actuarial adjustments)	839	1,215	1,386
Change in fund balances	\$ -	\$ 3	\$ 212

THE CORPORATION OF THE CITY OF VERNON

Capital Funds Statement of Financial Position Schedule 4



December 31 (in thousands of dollars)	General Capital Fund		Sewer Capital Fund	
	2008	2007	2008	2007
Financial Assets				
Cash and investments	\$ -	\$ 113	\$ -	\$ -
Due from other funds	1,013	978	1,161	1,120
	<u>1,013</u>	<u>1,091</u>	<u>1,161</u>	<u>1,120</u>
Liabilities				
Due to other funds	-	113	-	110
Long-term debt	24,591	26,295	19,274	20,490
	<u>24,591</u>	<u>26,408</u>	<u>19,274</u>	<u>20,600</u>
Net Debt	<u>(23,578)</u>	<u>(25,317)</u>	<u>(18,113)</u>	<u>(19,480)</u>
Tangible Capital Assets	140,385	131,016	85,575	83,026
NET POSITION	<u>\$ 116,807</u>	<u>\$ 105,699</u>	<u>\$ 67,462</u>	<u>\$ 63,546</u>
Financial Equity, beginning of year	978	937	1,009	739
Add: Interest on investments	35	41	40	42
Add: Refunds of excess sinking fund requirements	-	-	177	359
Add: Local Service Area funding adjustment	-	-	110	-
Less: Financial equity used for funding asset additions	-	-	(175)	(131)
Financial Equity, end of year	<u>1,013</u>	<u>978</u>	<u>1,161</u>	<u>1,009</u>
Equity in Tangible Capital Assets, beginning of year	104,721	90,668	62,537	58,976
Add: asset additions funded by:				
General Revenue Fund (incl. general operating reserves)	5,380	7,280	-	-
Sewer Revenue Fund (incl. sewer operating reserves)	-	-	2,276	1,612
Statutory Reserve Funds	1,560	349	-	-
Developers	2,989	4,427	98	432
Government grants	413	404	-	-
Excess borrowing bylaw funds	-	-	175	131
Add: transfer of Vernon Airport Corporation assets	-	810	-	-
Add: long-term debt principal payments	1,322	1,321	839	928
Add: long-term debt actuarial adjustments	382	305	376	458
Less: current amortization of leased assets	(723)	(723)	-	-
Less: asset disposals	(250)	(120)	-	-
Equity in Tangible Capital Assets, end of year	<u>115,794</u>	<u>104,721</u>	<u>66,301</u>	<u>62,537</u>
FUND POSITION	<u>\$ 116,807</u>	<u>\$ 105,699</u>	<u>\$ 67,462</u>	<u>\$ 63,546</u>

THE CORPORATION OF THE CITY OF VERNON
Statutory Reserve Funds Statement of Financial Position
 Schedule 5



December 31 (in thousands of dollars)	Land Sale Reserve		Local Improvement Reserve	
	2008	2007	2008	2007
Financial Assets				
Cash and investments	\$ 1,360	\$ 2,793	\$ 686	\$ 686
Due from General Revenue Fund	-	-	95	72
	1,360	2,793	781	758
Liabilities				
Due to General Revenue Fund	47	34	-	-
NET POSITION	\$ 1,313	\$ 2,759	\$ 781	\$ 758
Financial Equity, beginning of year				
	2,759	2,854	758	730
Add: Interest on investments	45	107	23	28
Add: Proceeds from sale of land	69	103	-	-
Add: Proceeds from Vernon Land Corp.	-	44	-	-
Add: Development contributions	-	-	-	-
Less: Appropriations to General Capital Fund	(1,560)	(349)	-	-
FUND POSITION	\$ 1,313	\$ 2,759	\$ 781	\$ 758

THE CORPORATION OF THE CITY OF VERNON
Continuity Schedule of Deferred Charges
 Schedule 6



<u>December 31 (in thousands of dollars)</u>	Develop. Cost Charges 2008	Sidewalk Gifting Funds 2008	Federal Gas Tax Funds 2008	Silver Star Rd. Dev. Funds 2008	TOTAL 2008	TOTAL 2007
Balance, beginning of year	\$ 12,234	\$ 1,014	\$ -	\$ 560	\$ 13,808	\$ 14,159
Add: Interest	741	-	4	14	759	528
Development levies	3,051	205	-	-	3,256	2,734
Government grants	-	-	509	-	509	397
Less: Transfers to:						
General Revenue Fund	-	-	(83)	-	(83)	-
General Capital Fund	(2,013)	(15)	(158)	-	(2,186)	(3,211)
Sewer Capital Fund	(98)	-	-	-	(98)	(134)
Less: Payout for developer-constructed capital assets - Silver Star Road	-	-	-	(574)	(574)	-
Change in development levy installments receivable	1,246	-	-	-	1,246	(664)
Balance, end of year	<u>\$ 15,161</u>	<u>\$ 1,204</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 16,637</u>	<u>\$ 13,809</u>
Represented by:						
Dedicated bank accounts	\$ 877	\$ -	\$ -	\$ -	\$ 877	\$ 1,248
Dedicated investments	7,927	-	-	-	7,927	7,424
Due from General Revenue Fund	6,357	1,204	272	-	7,833	5,137
	<u>\$ 15,161</u>	<u>\$ 1,204</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 16,637</u>	<u>\$ 13,809</u>