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# AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED,  
**DECEMBER 31, 2009**

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## Auditors' Report

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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, 2009 and the consolidated statements of operations, change in net debt 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, 2009 and the results of its financial operations and changes in its net debt for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Canada LLP*

Chartered Accountants

Vernon, British Columbia  
March 12, 2010

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



<b>December 31 (in thousands of dollars)</b>		<b>2009</b>	<b>2008</b>
<b>Financial Assets</b>			
Cash and cash equivalents	Note 2	\$ 38,631	\$ 38,399
Portfolio investments	Note 3	8,511	7,927
Accounts receivable	Note 4	14,435	12,897
Municipal Finance Authority deposits	Note 5	2,541	2,594
		<u>64,118</u>	<u>61,817</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	Note 6	18,293	15,250
Municipal Finance Authority reserves	Note 5	2,541	2,594
Long-term debt	Note 7	40,760	43,865
Deferred charges	Schedule 4	17,414	16,973
		<u>79,008</u>	<u>78,682</u>
<b>Net Debt</b>		<u>(14,890)</u>	<u>(16,865)</u>
<b>Non-financial Assets</b>			
Tangible capital assets (net of accumulated amortization)	Schedule 2	559,402	561,828
Land under development		1,444	847
Inventories of supplies		485	407
Prepaid expenses		357	449
		<u>561,688</u>	<u>563,531</u>
<b>Accumulated Surplus</b>			
Tangible capital assets		518,642	517,963
Statutory reserves	Schedule 3	2,317	2,094
Non-statutory reserves	Schedule 3	24,848	25,471
Operating surplus		991	1,138
		<u>\$ 546,798</u>	<u>\$ 546,666</u>

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

Approved by:

  
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 Manager of Finance

**THE CORPORATION OF THE CITY OF VERNON**  
**Consolidated Statement of Operations**  
**Statement B**



		Budget 2009	Actual 2009	Actual 2008
<b>For the Year Ended December 31 (in thousands of dollars)</b>				
<b>Revenue</b>				
Taxation	Note 9	\$ 23,660	\$ 23,483	\$ 22,071
Services provided to other local governments		1,917	1,954	2,145
Government grants		7,127	6,453	4,551
Sales of services:				
Licences and permits		1,216	1,716	1,885
Sewer fees and charges		8,352	9,095	8,453
Environmental health		1,657	1,618	1,486
Airport		789	791	1,008
Public transit and parking		1,732	1,503	1,569
Development fees		267	91	324
Fines and rentals		820	856	809
Other		1,069	1,379	1,447
Fiscal services:				
Penalties and interest on taxes		289	357	299
Interest on investments and actuarial adjustments		1,447	924	2,093
Interest on overdue trade receivables & utilities		42	179	73
Natural gas system lease and franchise agreement		2,904	2,955	2,997
Insurance recoveries		-	-	1,597
Capital contributions from developers		4,391	2,369	3,087
		<u>57,679</u>	<u>55,723</u>	<u>55,894</u>
<b>Expenses</b>				
General government and common services		7,592	7,228	5,922
Protective services:				
Police		9,672	9,148	7,702
Fire and rescue		4,090	3,991	3,419
Emergency measures		139	168	63
Planning & building inspection		2,080	1,707	1,425
Engineering		1,159	1,129	1,027
Operations:				
Road transportation		5,781	6,200	7,028
Airport		689	783	1,042
Storm drainage		222	647	200
Solid waste & recycling		1,484	1,622	1,325
Cemetery		191	178	207
Sanitary sewer		5,033	4,733	3,500
Other		1,183	1,210	1,156
Bylaw enforcement & parking control		1,077	964	1,001
Fiscal services:				
Interest on long-term debt		2,844	2,838	3,029
Other interest and bank charges		270	242	225
Amortization of tangible capital assets		18,135	10,863	10,619
Loss on disposal of tangible capital assets		-	1,940	357
		<u>61,641</u>	<u>55,591</u>	<u>49,247</u>
<b>Annual Surplus / (Deficit)</b>		<b>(3,962)</b>	<b>132</b>	<b>6,647</b>
<b>Accumulated Surplus, beginning of year, previously stated</b>		<b>546,666</b>	<b>546,666</b>	<b>193,815</b>
Transitional adjustment	Note 1(q)	-	-	346,204
<b>Accumulated Surplus, beginning of year, as restated</b>		<b>546,666</b>	<b>546,666</b>	<b>540,019</b>
<b>Accumulated Surplus, end of year</b>		<b>\$ 542,704</b>	<b>\$ 546,798</b>	<b>\$ 546,666</b>

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 Change in Net Debt**  
**Statement C**



<b>For the Year Ended December 31 (in thousands of dollars)</b>	<b>Budget 2009</b>	<b>Actual 2009</b>	<b>Actual 2008</b>
<b>Annual surplus / (deficit)</b>	\$ (3,962)	\$ 132	\$ 6,647
Add: Amortization of tangible capital assets	18,135	10,863	10,619
Losses on disposal of tangible capital assets	-	1,940	357
Proceeds on sale of tangible capital assets	-	252	69
Reclassification of tangible capital assets to land under development	-	119	-
Consumption of supplies inventories	-	717	1,192
Use of prepaid expenses	-	231	532
	<u>18,135</u>	<u>14,122</u>	<u>12,769</u>
Less: Acquisition of tangible capital assets	18,135	10,748	13,657
Increase in land under development	-	597	-
Acquisition of supplies inventories	-	795	1,405
Acquisition of prepaid expenses	-	139	428
	<u>18,135</u>	<u>12,279</u>	<u>15,490</u>
<b>(Increase) / decrease in net debt</b>	(3,962)	1,975	3,926
<b>Net debt, beginning of year</b>	<u>16,865</u>	<u>16,865</u>	<u>20,791</u>
<b>Net debt, end of year</b>	<u>\$ 20,827</u>	<u>\$ 14,890</u>	<u>\$ 16,865</u>

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**



<b>December 31 (in thousands of dollars)</b>	<b>2009</b>	<b>2008</b>
<b>Operating Activities:</b>		
Annual surplus	\$ 132	\$ 6,647
Non-cash items included in annual surplus:		
Amortization of tangible capital assets	10,863	10,619
Net losses on disposal of tangible capital assets	1,940	357
Contributed tangible capital assets	(280)	(651)
Actuarial adjustments on long-term debt	(595)	(758)
Change in non-cash operating items:		
(Increase) / decrease in accounts receivable	(1,538)	534
(Increase) / decrease in supplies inventories	(78)	13
Decrease in prepaid expenses	92	103
Increase in accounts payable and accrued liabilities	3,043	539
Increase in deferred charges	441	1,602
	<u>14,020</u>	<u>19,005</u>
<b>Capital Activities:</b>		
Proceeds on sale of tangible capital assets	252	69
Acquisition of tangible capital assets	(10,468)	(13,025)
	<u>(10,216)</u>	<u>(12,956)</u>
<b>Investing Activities:</b>		
Change in portfolio investments (MFA Bond Fund)	(584)	(500)
Increase in land under development	(478)	-
	<u>(1,062)</u>	<u>(500)</u>
<b>Financing Activities:</b>		
Principal payments on long-term debt	(2,510)	(2,161)
<b>Increase in cash and cash equivalents</b>	<u>232</u>	<u>3,388</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>38,399</u>	<u>35,011</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 38,631</u>	<u>\$ 38,399</u>

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 Schedule of Segmented Operations**  
**Schedule 1**



<b>For the Year Ended December 31, 2009 (in thousands of dollars)</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>	<b>2008</b>
	Revenue	Expense	Net Revenue / (Net Expense)	Revenue	Expense	Net Revenue / (Net Expense)
<b>General Government:</b>						
Legislative & Grants to Organizations	\$ -	\$ 856	\$ (856)	\$ -	\$ 666	\$ (666)
Corporate Administration	-	975	(975)	76	855	(779)
Tourism	90	370	(280)	-	14	(14)
City Clerk's Office	(2)	371	(373)	10	399	(389)
Finance & Purchasing	320	1,825	(1,505)	459	1,652	(1,193)
Human Resources	-	858	(858)	-	749	(749)
Information Services	13	1,364	(1,351)	11	1,331	(1,320)
Civic Buildings	636	630	6	279	612	(333)
Hesperia Development Corp.	-	168	(168)	-	-	-
CBW Development Corp.	-	78	(78)	-	-	-
	<u>1,057</u>	<u>7,495</u>	<u>(6,438)</u>	<u>835</u>	<u>6,278</u>	<u>(5,443)</u>
<b>Protective Services:</b>						
Police	677	9,313	(8,636)	661	7,867	(7,206)
Fire & Rescue	390	4,102	(3,712)	3,790	3,533	257
Emergency Measures	89	168	(79)	21	63	(42)
	<u>1,156</u>	<u>13,583</u>	<u>(12,427)</u>	<u>4,472</u>	<u>11,463</u>	<u>(6,991)</u>
<b>Planning &amp; Building Inspection:</b>						
Planning	91	1,112	(1,021)	407	869	(462)
Building & Licence Inspection	1,700	595	1,105	1,871	556	1,315
	<u>1,791</u>	<u>1,707</u>	<u>84</u>	<u>2,278</u>	<u>1,425</u>	<u>853</u>
<b>Engineering Services</b>	78	1,129	(1,051)	260	1,027	(767)
<b>Operations:</b>						
Roads & Sidewalks	2,352	10,741	(8,389)	3,365	10,137	(6,772)
Airport	791	802	(11)	1,008	1,061	(53)
Storm Drainage	790	1,838	(1,048)	161	1,112	(951)
Sanitary Sewer	10,914	8,211	2,703	10,499	7,052	3,447
Public Transit	2,001	2,613	(612)	2,073	2,769	(696)
Solid Waste & Recycling	1,481	1,622	(141)	1,327	1,325	2
Cemetery	155	179	(24)	176	208	(32)
Other	1,115	1,757	(642)	936	1,634	(698)
	<u>19,599</u>	<u>27,763</u>	<u>(8,164)</u>	<u>19,545</u>	<u>25,298</u>	<u>(5,753)</u>
<b>Parking &amp; Bylaw Enforcement</b>	1,048	1,028	20	1,087	1,057	30
<b>Non-Segmented Items (unallocated)</b>	30,994	2,886	28,108	27,417	2,699	24,718
<b>Total</b>	<u>\$ 55,723</u>	<u>\$ 55,591</u>	<u>\$ 132</u>	<u>\$ 55,894</u>	<u>\$ 49,247</u>	<u>\$ 6,647</u>

**THE CORPORATION OF THE CITY OF VERNON**  
**Consolidated Schedule of Tangible Capital Assets**  
**Schedule 2**



	December 31, 2009 (in thousands of dollars)				December 31, 2008				December 31, 2007			
	Balance Beginning of Year	Additions	Disposals	Write- downs	Balance End of Year	Accumulated Amortization Beginning of Year	Amortization Expense	Accumulated Amortization Reductions on Disposals	Accumulated Amortization End of Year	Net Carrying Amount End of Year		
Land	\$ 244,399	\$ 309	\$ 366	\$ -	\$ 244,342	\$ -	\$ -	\$ -	\$ -	\$ 244,342		
Buildings	55,107	669	79	-	55,697	12,911	1,503	43	14,371	41,326		
Vehicles	8,837	908	70	-	9,675	3,786	617	63	4,340	5,335		
Misc. Equipment	1,341	57	-	-	1,398	775	35	-	810	588		
Information Technology	1,604	371	5	-	1,970	1,299	270	3	1,566	404		
Transportation Infrastructure	185,766	5,480	2,319	-	188,927	63,074	5,598	733	67,939	120,988		
Storm Sewer Infrastructure	70,014	1,264	388	-	70,890	14,854	934	132	15,656	55,234		
Sanitary Sewer Infrastructure	80,826	1,690	102	-	82,414	16,151	1,077	44	17,184	65,230		
Irrigation Water Infrastructure	7,920	-	-	-	7,920	2,095	106	-	2,201	5,719		
Natural Gas System Capital Lease	25,295	-	-	-	25,295	4,336	723	-	5,059	20,236		
<b>TOTAL</b>	<b>\$ 681,109</b>	<b>\$ 10,748</b>	<b>\$ 3,329</b>	<b>\$ -</b>	<b>\$ 688,528</b>	<b>\$ 119,281</b>	<b>\$ 10,863</b>	<b>\$ 1,018</b>	<b>\$ 129,126</b>	<b>\$ 559,402</b>		

**Supplementary Information Included in Above Schedule (in thousands of dollars)**

Tangible capital assets under construction and not yet subject to amortization	\$ 2,863
Contributed tangible capital assets received during the current period	\$ 280
Tangible capital assets recognized at nominal value (land)	\$ 5
Interest capitalized during the current period	\$ -

**THE CORPORATION OF THE CITY OF VERNON**  
**Continuity Schedule of Reserves**  
**Schedule 3**



<b>For the Year 2009</b> <i>(in thousands of dollars)</i>	Balance Beginning of Year	Incoming Transfers	Interest	Outgoing Transfers	Balance End of Year
<b><u>Statutory Reserve Funds</u></b>					
Land Sales Reserve Fund	1,313	240	8	(30)	1,531
Local Improvement Reserve Fund	781	-	5	-	786
	<u>2,094</u>	<u>240</u>	<u>13</u>	<u>(30)</u>	<u>2,317</u>
<b><u>Non-Statutory Reserves</u></b>					
Budget Carry-Over Reserve - General	2,498	1,813	-	(2,490)	1,821
Budget Carry-Over Reserve - Sewer	1,404	869	-	(1,355)	918
Capital Reserves - General	9,183	3,190	25	(3,488)	8,910
Capital Reserves - Sewer	5,935	2,433	8	(814)	7,562
Operating Reserves - General	80	42	-	-	122
Operating Reserves - Sewer	450	-	1	-	451
Tax Equalization Reserves	2,595	1,729	4	(2,296)	2,032
Special Purpose Reserves	1,748	81	2	(315)	1,516
Terasen Gas Lease Legacy Reserve	1,578	-	2	(64)	1,516
	<u>25,471</u>	<u>10,157</u>	<u>42</u>	<u>(10,822)</u>	<u>24,848</u>
<b>Grand Total Reserves</b>	<u>27,565</u>	<u>10,397</u>	<u>55</u>	<u>(10,852)</u>	<u>27,165</u>

**THE CORPORATION OF THE CITY OF VERNON**  
**Continuity Schedule of Deferred Charges**  
**Schedule 4**



<b>For the Year 2009</b> <i>(In thousands of dollars)</i>	Develop. Cost Charges (Roads)	Develop. Cost Charges (Drainage)	Develop. Cost Charges (Sewer)	Sidewalk Gifting Funds	Federal Gas Tax / Transit Funds	TOTAL
Balance, beginning of year	\$ 6,178	\$ 2,023	\$ 7,276	\$ 1,204	\$ 292	\$ 16,973
Add: Interest	377	62	218	-	7	664
Development levies	885	89	348	111	-	1,433
Federal Government transfers	-	-	-	-	1,033	1,033
Less: Transfers to:						
General Fund	(1,168)	(106)	-	(70)	(530)	(1,874)
Sewer Fund	-	-	(815)	-	-	(815)
Balance, end of year	<u>\$ 6,272</u>	<u>\$ 2,068</u>	<u>\$ 7,027</u>	<u>\$ 1,245</u>	<u>\$ 802</u>	<u>\$ 17,414</u>
Represented by:						
Deposit accounts	\$ 196	\$ 201	\$ 480	\$ -	\$ -	\$ 877
Portfolio investments	5,349	708	2,454	-	-	8,511
Due from General Fund	727	1,159	4,093	1,245	802	8,026
	<u>\$ 6,272</u>	<u>\$ 2,068</u>	<u>\$ 7,027</u>	<u>\$ 1,245</u>	<u>\$ 802</u>	<u>\$ 17,414</u>

Year Ended December 31, 2009

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**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 unless otherwise stated.

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. The following entities have been consolidated:

Hesperia Development Corp.	100%
CBW Development Corp.	100%

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) Cash and Cash Equivalents:

Management considers all highly liquid investments with maturity of three months or less at acquisition to be cash equivalents.

e) Revenue Recognition:

All revenue is recognized on an accrued basis. Property taxes are recognized as revenue in the year it is levied. Utility charges are recognized as revenue in the quarterly period earned.

f) Non-Financial Assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the annual surplus/deficit, provides the consolidated change in net debt for the year.

Year Ended December 31, 2009

g) Tangible Capital Assets and Amortization:

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue. Amortization is recorded on the basis of straight-line or declining balance over the estimated useful life of the tangible capital asset commencing during the first full year of its productive use as follows:

Buildings	Straight-line	35 to 60 years
Vehicles	Straight-line	7 to 29 years
Misc. Equipment	Straight-line	10 to 30 years
Information Technology	Declining Balance	40%
Roads (surface)	Straight-line	25 years
Roads (base)	Straight-line	75 years
Bridges	Straight-line	50 to 75 years
Sidewalks	Straight-line	25 to 50 years
Traffic Signals	Straight-line	15 years
Streetlighting	Declining Balance	5%
Parking Meters	Declining Balance	10%
Storm Sewers	Straight-line	75 years
Sanitary Sewers	Straight-line	75 years
Irrigation Water	Straight-line	75 years
Natural Gas Lease	Straight-line	35 years

h) Land Under Development:

Land under development 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.

i) Debt Charges:

Debt principal payments are not charged against current operating revenue pursuant to local government accounting standards. Interest is recorded on an accrued basis.

j) Deferred Charges:

Deferred charges are comprised of levied and unused Development Cost Charges; Sidewalk Gifting 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 acquisitions or eligible operating expenses.

k) Reserves:

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

Year Ended December 31, 2009

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- l) 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.
- m) Financial Instruments:  
The City's financial instruments consist of cash and cash equivalents, portfolio investments, accounts receivable, Municipal Finance Authority deposits, accounts payable, Municipal Finance Authority reserves, 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.
- n) Budget Figures:  
The budget figures are from the annual Financial Plan Bylaw. They have been reallocated to conform to PSAB financial statement presentation requirements where appropriate. 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 authorized by City Council to reflect changes in the budget. Such amendments are not reflected in the financial statement budget figures.
- o) Comparative Figures:  
Some of the comparative figures have been modified to conform to the financial statement presentation adopted in the current year.
- p) Segment Disclosures:  
In the Consolidated Statement of Segmented Operations, 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.
- q) Change in Accounting Principles:  
On January 1, 2009 the City adopted the revised accounting standards Section 1000 – Financial Statement Concepts, Section 1100 – Financial Statement Objectives; Section 1200 – Financial Statement Presentation; and the new accounting standard Section 3150 – Tangible Capital Assets. As a result of the adoption, the presentation of the financial statements changed from the prior year. In addition, the new tangible capital assets standard required the recognition of all tangible capital assets in the financial statements. This change

Year Ended December 31, 2009

in accounting policy has been applied retroactively with the restatement of the prior year. The impact of adopting the tangible capital asset standard was as follows (in thousands of dollars):

	2008
Increase in tangible capital assets	<u>\$ 335,949</u>
Increase in inventories of supplies	<u>\$ 407</u>
Decrease in accounts receivable	<u>\$ (225)</u>
Increase in accumulated surplus	<u>\$ 336,131</u>
Increase in revenue:	
Proceeds on land sales	\$ (69)
Capital contributions from developers	651
Total increase in revenue	<u>\$ 582</u>
Decrease in expenses:	
Acquisition of tangible capital assets and land under development	\$ (13,006)
Amortization of tangible capital assets	10,619
Loss on disposal of tangible capital assets	357
Total decrease in expenses	<u>\$ (2,030)</u>
Increase in annual surplus	<u>\$ 2,612</u>
Increase in opening accumulated surplus	<u>\$ 346,204</u>

**2. Cash and Cash Equivalents (in thousands of dollars):**

	2009	2008
Restricted:		
Deferred Charges	\$ 17,414	\$ 16,973
Statutory Reserves	2,317	2,094
	<u>19,731</u>	<u>19,067</u>
Unrestricted	18,900	19,332
	<u>\$ 38,631</u>	<u>\$ 38,399</u>

The City has access to an operating line of credit not exceeding \$2.0 million. Interest is accrued based on the Bank of Montreal prime lending rate plus 0.25%. As of December 31, 2009, this line of credit was not being utilized.

**3. Portfolio Investments:**

Portfolio investments are comprised of pooled investments in the Municipal Finance Authority Bond Fund. As of December 31, 2009, all such investments represented development cost charges.

Year Ended December 31, 2009

**4. Accounts Receivable (in thousands of dollars):**

	2009	2008
Property taxes	\$ 1,679	\$ 1,110
Utility billings	4,829	4,621
Other governments	4,163	1,096
Trade & other receivables	3,764	6,070
	<u>\$ 14,435</u>	<u>\$ 12,897</u>

**5. Municipal Finance Authority – Deposits and Reserves (in thousands of dollars):**

The City issues most of its long-term debt 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 pay certain amounts to the Municipal Finance Authority. (See Note 15(b)). The details of the cash deposits withheld from debenture proceeds and demand notes at year end are as follows:

	Demand Notes	Cash Deposits	2009	2008
General	\$ 1,227	\$ 488	\$ 1,715	\$ 1,727
Sewer	556	270	826	867
	<u>\$ 1,783</u>	<u>\$ 758</u>	<u>\$ 2,541</u>	<u>\$ 2,594</u>

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

	2009	2008
Trade payables	\$ 10,696	\$ 7,066
Prepaid property taxes	2,316	2,281
Salaries, wages and related costs	2,309	2,159
Deposits and holdbacks	2,180	2,678
Prepaid fees & charges	264	281
Other accrued liabilities	528	785
	<u>\$ 18,293</u>	<u>\$ 15,250</u>

Year Ended December 31, 2009

**7. Long-term Debt (in thousands of dollars):**

Debt Bylaw No.	Purpose of Bylaw	Interest Rate %	Year of Maturity	2009 Balance	2008 Balance
<b>General Purposes:</b>					
3602	Police Building Expansion	4.75%	2011	\$ 373	\$ 546
4172	48th Ave Specified Area *	5.99%	2014	-	221
4717	Terasen Gas Lease **	5.25%	2019	16,780	18,051
4718	Terasen Gas Lease **	9.85%	2037	1,205	1,213
4624	Downtown Revitalization	4.15%	2020	306	328
4625	Downtown Revitalization	4.15%	2020	101	108
4728	Downtown Revitalization	4.15%	2020	166	178
4739	Various	4.15%	2020	3,683	3,946
				<u>22,614</u>	<u>24,591</u>
<b>Sewer Purposes:</b>					
3875	Okanagan Landing	4.00%	2011	53	78
3066	Misc Sewer	6.10%	2012	34	44
4172	48th Ave Specified Area *	5.99%	2014	-	238
1214BJ	Blue Jay Specified Area	5.99%	2017	52	57
1214BJ	Blue Jay Specified Area *	5.99%	2019	-	257
4889	Reclaimed Water Line	4.15%	2020	836	895
4680	Treatment Plant Phase 1	6.06%	2027	4,147	4,288
4680	Treatment Plant Phase 2	4.90%	2028	1,748	1,802
4791	Water Reclamation Plant	4.15%	2030	11,276	11,615
				<u>18,146</u>	<u>19,274</u>
				<u>\$ 40,760</u>	<u>\$ 43,865</u>

Total Long-term Debt

\* Three debt bylaws were paid out in 2009 earlier than their maturity dates in order to take advantage of an early pay-out option offered by the Municipal Finance Authority.

\*\* See Note 12 for capital lease liabilities.

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

	General	Sewer	Total
2010	\$ 1,303	\$ 523	\$ 1,826
2011	1,228	523	1,751
2012	1,229	505	1,734
2013	1,230	505	1,735
2014	1,231	505	1,736
2015 & thereafter	7,583	7,117	14,700
	<u>13,804</u>	<u>9,678</u>	<u>23,482</u>
Actuarial adjustments	8,810	8,468	17,278
	<u>\$ 22,614</u>	<u>\$ 18,146</u>	<u>\$ 40,760</u>

Year Ended December 31, 2009

**9. Property Tax Revenue:**

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

	2009	2008
Specific assessments:		
Residential	\$ 14,503	\$ 13,245
Business	6,457	6,226
Utilities	196	178
Light industrial	294	288
Non-profit	87	68
Farm land	3	2
	<u>21,540</u>	<u>20,007</u>
Grants in lieu of taxes	1,087	990
Specified area taxes & other	856	1,074
	<u>\$ 23,483</u>	<u>\$ 22,071</u>

**10. 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.

	2009	2008
Trust Fund Continuity (in thousands of dollars)		
Balance, beginning of year	\$ 594	\$ 569
Interest earned	18	17
Proceeds from plot sales & memorial settings	20	25
Transfers to General Fund for maintenance	(18)	(17)
Balance, end of year	<u>\$ 614</u>	<u>\$ 594</u>

**11. Expenses by Object (in thousands of dollars):**

	2009	2008
Salaries, wages & employment benefits	\$ 16,892	\$ 14,068
Contracted services	14,715	13,705
Amortization of tangible capital assets	10,863	10,618
Supplies, materials & other	6,286	5,420
Debt servicing, bank charges & losses on disposal of assets	4,868	3,506
Utilities, telephone & insurance	1,967	1,930
	<u>\$ 55,591</u>	<u>\$ 49,247</u>

Year Ended December 31, 2009

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## 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 2009 was \$2,327,361, (\$2,471,767 in 2008). 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.

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

The City has entered into a 10-year agreement with the Regional District of North Okanagan 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. Land Under Development:

In 2008, development activity began for both Hesperia Development Corporation and CBW Development Corporation. The accumulated value of \$1,444,000 is comprised of the historical cost of the land plus all design, engineering, and related costs incurred to date. Such costs have not been included in tangible capital assets since the land and improvements are subject to resale upon completion of the development.

Year Ended December 31, 2009

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**15. Contingent Liabilities:**

a) Regional District of North Okanagan:

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.

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 158,000 active members and approximately 57,000 retired members. Active members include approximately 33,000 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

Year Ended December 31, 2009

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to individual employers. The City of Vernon paid \$1,341,348 for employer contributions to the Plan in 2009 (\$1,031,748 in 2008).

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 amount of the Letter of Credit is \$ 716,000. As of December 31, 2009, no drawing on the Letter of Credit has occurred.

g) Environmental Issues:

In connection with the planned lease of a City-owned parcel of land for a future transit bus maintenance facility, the City became aware of soil contamination on the site. An independent environmental consultant has been retained to assess the source and extent of contamination. Results are insufficiently conclusive to estimate any costs of environmental remediation at this time. As such, no provision for this contingency has been recorded in the Statement of Financial Activities.



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## Auditors' Report on Supplementary Financial Information

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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, 2009.

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 schedules of general revenue fund operations and sewer revenue fund operations for the year ended December 31, 2009 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 Canada LLP*

Chartered Accountants

Vernon, British Columbia  
March 12, 2010

**THE CORPORATION OF THE CITY OF VERNON**  
**Schedule of General Revenue Fund**  
**Operations (unaudited)**  
**Exhibit 1**



<b>For the Year Ended December 31 (in thousands of dollars)</b>	<b>Budget 2009</b>	<b>Actual 2009</b>	<b>Actual 2008</b>
<b>General Revenue</b>			
Taxation	\$ 23,440	\$ 23,213	\$ 21,776
Services provided to other local governments	1,496	1,438	1,376
Government grants	4,865	4,298	3,876
Sale of services	7,549	7,956	8,454
Fiscal services	1,778	835	1,768
Natural gas system lease and franchise agreement	2,904	2,955	2,997
	<u>42,032</u>	<u>40,695</u>	<u>40,247</u>
<b>General Expenses</b>			
General government and common services	7,258	6,670	5,636
Protective services:			
Police	9,672	9,094	7,771
Fire and rescue	4,090	3,969	3,418
Emergency measures	139	176	63
Planning & building inspection	2,080	1,733	1,437
Engineering	1,159	1,162	1,030
Operations:			
Road transportation	5,782	5,836	7,027
Airport	689	761	1,042
Storm drainage	222	330	200
Solid waste & recycling	1,484	1,622	1,325
Cemetery	191	178	207
Other	811	775	728
Bylaw enforcement & parking control	1,077	970	1,007
Fiscal services:			
Interest on long-term debt	1,807	1,804	1,807
Other interest and bank charges	270	242	225
Losses on disposal of general tangible capital assets	-	1,852	290
Amortization of general tangible capital assets	-	8,513	8,289
	<u>36,731</u>	<u>45,687</u>	<u>41,502</u>
<b>General Surplus / (Deficit), before reconciling items</b>	<u>5,301</u>	<u>(4,992)</u>	<u>(1,255)</u>
Add: Amortization of general tangible capital assets	-	8,513	8,289
Add: Net losses on disposal of general tangible capital assets	-	1,846	290
Add: Transfers from other funds and reserves	1,284	3,503	2,926
Less: Capital asset acquisitions funded by General Fund operations	(1,807)	(790)	(2,833)
Less: Principal payments on long-term debt	(1,322)	(1,510)	(1,704)
Less: Transfers to other funds and reserves	(3,456)	(6,570)	(5,713)
<b>Surplus, for purposes of balanced budget and tax rate determination</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**THE CORPORATION OF THE CITY OF VERNON**  
**Schedule of Sewer Revenue Fund**  
**Operations (unaudited)**  
**Exhibit 2**



<b>For the Year Ended December 31 (in thousands of dollars)</b>	<b>Budget 2009</b>	<b>Actual 2009</b>	<b>Actual 2008</b>
<b>Sewer Revenue</b>			
Taxation	\$ 220	\$ 270	\$ 295
Services provided to other local governments	421	516	769
Government grants	181	83	261
User fees & charges	8,355	9,095	8,520
Fiscal services	-	5	376
	<u>9,177</u>	<u>9,969</u>	<u>10,221</u>
<b>Sewer Expenses</b>			
Common services	656	225	180
Operations:			
Collection system	1,015	812	617
Treatment system	2,706	2,706	2,372
Disposal system	797	638	660
Pump stations	565	385	373
Fiscal services:			
Interest on long-term debt	1,038	1,034	1,222
Losses on disposal of sewer tangible capital assets	-	94	67
Amortization of sewer tangible capital assets	-	2,350	2,330
	<u>6,777</u>	<u>8,244</u>	<u>7,821</u>
	<u>2,400</u>	<u>1,725</u>	<u>2,400</u>
<b>Sewer Surplus, before reconciling items</b>			
Add: Amortization of sewer tangible capital assets	-	2,350	2,330
Add: Net loss on disposal of sewer tangible capital assets	-	94	67
Add: Transfers from other funds and reserves	2,107	1,863	731
Less: Capital asset acquisitions funded by Sewer Fund operations	(2,417)	(1,724)	(1,991)
Less: Principal payments on long-term debt	(558)	(1,000)	(1,215)
Less: Transfers to other funds and reserves	(1,532)	(3,302)	(2,319)
	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 3</u>
<b>Surplus, for purposes of balanced budget and user rate determination</b>			