

# **AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED,

**DECEMBER 31, 2010**



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## Independent Auditor's Report

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**To the Mayor and Council of the  
The Corporation of the City of Vernon**

We have audited the accompanying consolidated financial statements of the Corporation of the City of Vernon, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statement of operations, consolidated statement of change in net debt, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies, and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Vernon as at December 31, 2010 and the results of its operations, changes in its net debt, and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Accountants

Vernon, British Columbia  
May 26, 2011

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



<b>December 31 (in thousands of dollars)</b>		<b>2010</b>	<b>2009</b>
<b>Financial Assets</b>			
Cash and cash equivalents	Note 2	\$ 34,690	\$ 38,631
Portfolio investments	Note 3	8,822	8,511
Accounts receivable	Note 4	17,263	14,435
Municipal Finance Authority deposits	Note 5	2,336	2,541
		<u>63,111</u>	<u>64,118</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	Note 6	20,999	18,293
Municipal Finance Authority reserves	Note 5	2,336	2,541
Long-term debt	Note 7	38,067	40,760
Deferred charges	Schedule 4	13,677	17,414
		<u>75,079</u>	<u>79,008</u>
<b>Net Debt</b>		<u>(11,968)</u>	<u>(14,890)</u>
<b>Non-financial Assets</b>			
Tangible capital assets (net of accumulated amortization)	Schedule 2	560,191	559,402
Land under development		1,799	1,444
Inventories of supplies		441	485
Prepaid expenses		564	357
		<u>562,995</u>	<u>561,688</u>
<b>Accumulated Surplus</b>			
Tangible capital assets		522,124	518,642
Statutory reserves	Schedule 3	1,750	2,317
Non-statutory reserves	Schedule 3	26,328	24,848
Operating surplus		825	991
		<u>\$ 551,027</u>	<u>\$ 546,798</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	Actual	Actual	
For the Year Ended December 31 (in thousands of dollars)		2010	2010	2009	
		Note 16			
<b>Revenue</b>					
	Taxation	Note 9	\$ 24,733	\$ 24,745	\$ 23,483
	Services provided to other local governments		2,001	2,231	1,954
	Government grants		7,831	7,406	6,453
	Sales of services:				
	Licences and permits		1,242	1,236	1,716
	Sewer fees and charges		8,519	8,928	9,095
	Environmental health		1,891	2,051	1,618
	Airport		732	842	791
	Public transit and parking		1,606	1,497	1,503
	Development fees		114	113	91
	Fines and rentals		805	814	856
	Other		1,671	1,504	1,379
	Fiscal services:				
	Penalties and interest on taxes		352	405	357
	Interest on investments and actuarial adjustments		500	1,230	924
	Interest on overdue trade receivables & utilities		106	103	179
	Natural gas system lease and franchise agreement		2,853	2,988	2,955
	Capital contributions from developers		4,517	5,564	2,369
			59,473	61,657	55,723
<b>Expenses</b>					
	General government and common services		7,592	7,698	7,228
	Protective services:				
	Police		9,852	9,445	9,148
	Fire and rescue		4,335	4,274	3,991
	Emergency measures		157	202	168
	Planning & building inspection		2,002	2,082	1,707
	Engineering		1,078	1,070	1,129
	Operations:				
	Road transportation		6,125	7,243	6,200
	Airport		745	857	783
	Storm drainage		253	348	647
	Solid waste & recycling		1,716	1,817	1,622
	Cemetery		192	190	178
	Sanitary sewer		4,781	4,575	4,733
	Other		1,301	1,283	1,210
	Bylaw enforcement & parking control		1,099	976	964
	Fiscal services:				
	Interest on long-term debt		2,705	2,689	2,838
	Other interest and bank charges		279	384	242
	Amortization of tangible capital assets		9,697	10,811	10,863
	Loss on disposal of tangible capital assets		-	1,484	1,940
			53,909	57,428	55,591
	<b>Annual Surplus / (Deficit)</b>		5,564	4,229	132
	<b>Accumulated Surplus, beginning of year</b>		546,798	546,798	546,666
	<b>Accumulated Surplus, end of year</b>		\$ 552,362	\$ 551,027	\$ 546,798

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**



	Budget	Actual	Actual
<b>For the Year Ended December 31 (in thousands of dollars)</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>
	Note 16		
<b>Annual surplus / (deficit)</b>	\$ 5,564	\$ 4,229	\$ 132
Add:			
Amortization of tangible capital assets	9,697	10,811	10,863
Losses on disposal of tangible capital assets	-	1,484	1,940
Proceeds on sale of tangible capital assets	-	309	252
Reclassification of tangible capital assets to land under development	-	-	119
Consumption of supplies inventories	-	780	717
Use of prepaid expenses	-	494	231
	<u>9,697</u>	<u>13,878</u>	<u>14,122</u>
Less:			
Acquisition of tangible capital assets	13,144	13,393	10,748
Increase in land under development	-	355	597
Acquisition of supplies inventories	-	736	795
Acquisition of prepaid expenses	-	701	139
	<u>13,144</u>	<u>15,185</u>	<u>12,279</u>
<b>(Increase) / decrease in net debt</b>	2,117	2,922	1,975
<b>Net debt, beginning of year</b>	<u>14,890</u>	<u>14,890</u>	<u>16,865</u>
<b>Net debt, end of year</b>	<u>\$ 12,773</u>	<u>\$ 11,968</u>	<u>\$ 14,890</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**



December 31 <i>(in thousands of dollars)</i>	2010	2009
<b>Operating Activities:</b>		
Annual surplus	\$ 4,229	\$ 132
Non-cash items included in annual surplus:		
Amortization of tangible capital assets	10,811	10,863
Net losses on disposal of tangible capital assets	1,484	1,940
Contributed tangible capital assets	(792)	(280)
Actuarial adjustments on long-term debt	(867)	(595)
Change in non-cash operating items:		
(Increase) / decrease in accounts receivable	(2,828)	(1,538)
(Increase) / decrease in supplies inventories	44	(78)
(Increase) / decrease in prepaid expenses	(207)	92
Increase in accounts payable and accrued liabilities	2,706	3,043
Increase / (decrease) in deferred charges	(3,737)	441
	10,843	14,020
<b>Capital Activities:</b>		
Proceeds on sale of tangible capital assets	309	252
Acquisition of tangible capital assets	(12,601)	(10,468)
	(12,292)	(10,216)
<b>Investing Activities:</b>		
Change in portfolio investments (MFA Bond Fund)	(311)	(584)
Increase in land under development	(355)	(478)
	(666)	(1,062)
<b>Financing Activities:</b>		
Principal payments on long-term debt	(1,826)	(2,510)
<b>Increase in cash and cash equivalents</b>	(3,941)	232
<b>Cash and cash equivalents, beginning of year</b>	38,631	38,399
<b>Cash and cash equivalents, end of year</b>	\$ 34,690	\$ 38,631

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</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>
<b>December 31, 2010</b>	Revenue	Expense	Net Revenue /(Net Expense)	Revenue	Expense	Net Revenue /(Net Expense)
<i>(in thousands of dollars)</i>						
<b>General Government:</b>						
Legislative & Grants to Organizations	\$ -	\$ 755	\$ (755)	\$ -	\$ 856	\$ (856)
Corporate Administration	-	1,060	(1,060)	-	975	(975)
Tourism	402	448	(46)	90	370	(280)
City Clerk's Office	-	417	(417)	(2)	371	(373)
Finance & Purchasing	326	1,715	(1,389)	320	1,825	(1,505)
Human Resources	-	822	(822)	-	858	(858)
Information Services	7	1,293	(1,286)	13	1,364	(1,351)
Civic Buildings	340	1,796	(1,456)	636	630	6
Hesperia Development Corp.	-	56	(56)	-	168	(168)
CBW Development Corp.	-	33	(33)	-	78	(78)
	<b>1,075</b>	<b>8,395</b>	<b>(7,320)</b>	<b>1,057</b>	<b>7,495</b>	<b>(6,438)</b>
<b>Protective Services:</b>						
Police	975	9,550	(8,575)	677	9,313	(8,636)
Fire & Rescue	267	4,388	(4,121)	390	4,102	(3,712)
Emergency Measures	109	202	(93)	89	168	(79)
	<b>1,351</b>	<b>14,140</b>	<b>(12,789)</b>	<b>1,156</b>	<b>13,583</b>	<b>(12,427)</b>
<b>Planning &amp; Building Inspection:</b>						
Planning	113	1,479	(1,366)	91	1,112	(1,021)
Building & Licence Inspection	1,219	604	615	1,700	595	1,105
	<b>1,332</b>	<b>2,083</b>	<b>(751)</b>	<b>1,791</b>	<b>1,707</b>	<b>84</b>
Engineering Services	80	1,070	(990)	78	1,129	(1,051)
<b>Operations:</b>						
Roads & Sidewalks	5,364	10,171	(4,807)	2,352	10,741	(8,389)
Airport	842	878	(36)	791	802	(11)
Storm Drainage	254	1,508	(1,254)	790	1,838	(1,048)
Sanitary Sewer	11,712	8,184	3,528	10,914	8,211	2,703
Public Transit	2,234	3,051	(817)	2,001	2,613	(612)
Solid Waste & Recycling	1,916	1,817	99	1,481	1,622	(141)
Cemetery	149	191	(42)	155	179	(24)
Other	1,156	1,862	(706)	1,115	1,757	(642)
	<b>23,627</b>	<b>27,662</b>	<b>(4,035)</b>	<b>19,599</b>	<b>27,763</b>	<b>(8,164)</b>
Parking & Bylaw Enforcement	1,108	1,033	75	1,048	1,028	20
Non-Segmented Items (unallocated)	33,084	3,045	30,039	30,994	2,886	28,108
<b>Total</b>	<b>\$ 61,657</b>	<b>\$ 57,428</b>	<b>\$ 4,229</b>	<b>\$ 55,723</b>	<b>\$ 55,591</b>	<b>\$ 132</b>

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



<b>December 31, 2010</b> <i>(in thousands of dollars)</i>	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	\$ 244,342	\$ 1,219	\$ 25	\$ -	\$ 245,536	\$ -	\$ -	\$ -	\$ -	\$ 245,536
Buildings	55,697	810	871	-	55,636	14,371	1,503	29	15,845	39,791
Vehicles	9,675	1,323	415	-	10,583	4,340	614	331	4,623	5,960
Misc. Equipment	1,398	-	-	-	1,398	810	39	-	849	549
Information Technology	1,970	446	-	-	2,416	1,566	162	-	1,728	688
Transportation Infrastructure	188,927	4,705	1,049	-	192,583	67,939	5,642	692	72,889	119,694
Storm Sewer Infrastructure	70,890	1,411	349	-	71,952	15,656	938	128	16,466	55,486
Sanitary Sewer Infrastructure	82,414	3,479	395	-	85,498	17,184	1,085	131	18,138	67,360
Irrigation Water Infrastructure	7,920	-	-	-	7,920	2,201	105	-	2,306	5,614
Natural Gas System Capital Lease	25,295	-	-	-	25,295	5,059	723	-	5,782	19,513
<b>TOTAL</b>	<b>\$ 688,528</b>	<b>\$ 13,393</b>	<b>\$ 3,104</b>	<b>\$ -</b>	<b>\$ 698,817</b>	<b>\$ 129,126</b>	<b>\$ 10,811</b>	<b>\$ 1,311</b>	<b>\$ 138,626</b>	<b>\$ 560,191</b>

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

Tangible capital assets under construction and not yet subject to amortization	\$ 5,876
Contributed tangible capital assets received during the current period	\$ 794
Tangible capital assets recognized at nominal value (land)	\$ -
Interest capitalized during the current period	\$ -

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



<b>For the Year 2010</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>					
Highway Access to Water Fund	\$ 307	\$ -	\$ 4	\$ -	\$311
Land Sales Reserve Fund	1,224	260	7	(843)	648
Local Improvement Reserve Fund	786	-	5	-	791
	2,317	260	16	(843)	1,750
<b><u>Non-Statutory Reserves</u></b>					
Budget Carry-Over Reserve - General	1,821	3,258	-	(1,814)	3,265
Budget Carry-Over Reserve - Sewer	918	1,344	-	(869)	1,393
Capital Reserves - General	8,910	3,873	44	(4,789)	8,038
Capital Reserves - Sewer	7,562	920	16	(223)	8,275
Operating Reserves - General	122	30	-	(19)	133
Operating Reserves - Sewer	451	-	1	-	452
Tax Equalization Reserves	2,032	736	4	(990)	1,782
Special Purpose Reserves	1,516	157	4	(200)	1,477
Terasen Gas Lease Legacy Reserve	1,516	-	12	(15)	1,513
	24,848	10,318	81	(8,919)	26,328
<b>Grand Total Reserves</b>	\$ 27,165	\$ 10,578	\$ 97	(\$ 9,762)	\$ 28,078

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



<b>For the Year 2010</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	\$ 6,272	\$ 2,068	\$ 7,027	\$ 1,245	\$ 802	\$ 17,414
Add: Interest	192	35	117	-	8	352
Development levies	446	77	273	267	-	1,063
Federal Government transfers	-	-	-	-	1,018	1,018
Less: Transfers to:						
General Fund	(2,738)	(245)	-	(1)	(1,402)	(4,386)
Sewer Fund	-	-	(1,784)	-	-	(1,784)
Balance, end of year	<u>\$ 4,172</u>	<u>\$ 1,935</u>	<u>\$ 5,633</u>	<u>\$ 1,511</u>	<u>\$ 426</u>	<u>\$ 13,677</u>
Represented by:						
Deposit accounts	\$ 196	\$ 201	\$ 479	\$ -	\$ -	\$ 876
Portfolio investments	5,544	734	2,544	-	-	8,822
Due from General Fund	<u>(1,568)</u>	<u>1,000</u>	<u>2,610</u>	<u>1,511</u>	<u>426</u>	<u>3,979</u>
	<u>\$ 4,172</u>	<u>\$ 1,935</u>	<u>\$ 5,633</u>	<u>\$ 1,511</u>	<u>\$ 426</u>	<u>\$ 13,677</u>

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

**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 accrual 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) Expenses:

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

g) 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

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

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.

h) 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
Street Lighting	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

i) 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.

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

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j) Debt Charges:

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

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) Comparative Figures:

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

## Notes to the Consolidated Financial Statements

Year Ended December 31, 2010

q) 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.

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

	2010	2009
Restricted:		
Deferred Charges	\$ 13,677	\$ 17,414
Statutory Reserves	1,750	2,317
	<u>15,427</u>	<u>19,731</u>
Unrestricted	19,263	18,900
	<u>\$ 34,690</u>	<u>\$ 38,631</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, 2010, this line of credit was not being utilized (2009 - \$0).

**3. Portfolio Investments:**

Portfolio investments are comprised of pooled investments in the Municipal Finance Authority Bond Fund. As of December 31, 2010, all such investments represented development cost charges.

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

	2010	2009
Property taxes	\$ 1,776	\$ 1,679
Utility billings	5,116	4,829
Other governments	8,778	4,163
Trade & other receivables	1,593	3,764
	<u>\$ 17,263</u>	<u>\$ 14,435</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:

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

	Demand Notes	Cash Deposits	2010	2009
General	\$ 1,087	\$ 413	\$ 1,500	\$ 1,715
Sewer	557	279	836	826
	<u>\$ 1,644</u>	<u>\$ 692</u>	<u>\$ 2,336</u>	<u>\$ 2,541</u>

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

	2010	2009
Trade payables	\$ 12,213	\$ 10,696
Prepaid property taxes	2,418	2,316
Salaries, wages and related costs	2,625	2,309
Deposits and holdbacks	2,596	2,180
Prepaid fees & charges	289	264
Other accrued liabilities	858	528
	<u>\$ 20,999</u>	<u>\$ 18,293</u>

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

Debt Bylaw No.	Purpose of Bylaw	Interest Rate %	Year of Maturity	2010 Balance	2009 Balance
<u>General Purposes:</u>					
3602	Police Building Expansion	4.75%	2011	\$ -	\$ 373
4717	Terasen Gas Lease **	5.25%	2019	15,446	16,780
4718	Terasen Gas Lease **	9.85%	2037	1,196	1,205
4624	Downtown Revitalization	4.15%	2020	283	306
4625	Downtown Revitalization	4.15%	2020	94	101
4728	Downtown Revitalization	4.15%	2020	154	166
4739	Various	4.15%	2020	3,409	3,683
				<u>20,582</u>	<u>22,614</u>
<u>Sewer Purposes:</u>					
3875	Okanagan Landing	4.00%	2011	27	53
3066	Misc Sewer	6.10%	2012	23	34
1214BJ	Blue Jay Specified Area	5.99%	2017	48	52
4889	Reclaimed Water Line	4.15%	2020	774	836
4680	Treatment Plant Phase 1	6.06%	2027	4,000	4,147
4680	Treatment Plant Phase 2	4.90%	2028	1,690	1,748
4791	Water Reclamation Plant	4.15%	2030	10,923	11,276
				<u>17,485</u>	<u>18,146</u>
Total Long-term Debt				<u>\$ 38,067</u>	<u>\$ 40,760</u>

\* 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.

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

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

	General	Sewer	Total
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	1,231	505	1,736
2016 & thereafter	6,277	6,606	12,883
	<u>12,426</u>	<u>9,149</u>	<u>21,575</u>
Actuarial adjustments	8,156	8,336	16,492
	<u>\$ 20,582</u>	<u>\$ 17,485</u>	<u>\$ 38,067</u>

**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):

	2010	2009
Specific assessments:		
Residential	\$ 14,996	\$ 14,503
Business	7,252	6,457
Utilities	208	196
Light industrial	296	294
Non-profit	99	87
Farm land	3	3
	<u>22,854</u>	<u>21,540</u>
Grants in lieu of taxes	1,143	1,087
Specified area taxes & other	748	856
	<u>\$ 24,745</u>	<u>\$ 23,483</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.

Trust Fund Continuity (in thousands of dollars)	2010	2009
Balance, beginning of year	\$ 614	\$ 594
Interest earned	14	18
Proceeds from plot sales & memorial settings	20	20
Transfers to General Fund for maintenance	(14)	(18)
Balance, end of year	<u>\$ 634</u>	<u>\$ 614</u>

## Notes to the Consolidated Financial Statements

Year Ended December 31, 2010

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

	2010	2009
Salaries, wages & employment benefits	\$ 17,692	\$ 16,892
Contracted services	15,973	14,715
Amortization of tangible capital assets	10,811	10,863
Supplies, materials & other	6,369	6,286
Debt servicing, bank charges & losses on disposal of assets	4,557	4,868
Utilities, telephone & insurance	2,026	1,967
	<u>\$ 57,428</u>	<u>\$ 55,591</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 2010 was \$2,376,238, (\$2,327,361 in 2009). 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.

## Notes to the Consolidated Financial Statements

Year Ended December 31, 2010

**14. Land Under Development:**

In 2008, development activity began for both Hesperia Development Corporation and CBW Development Corporation. The accumulated value of \$1,799,000 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.

**15. Commitments:**

The City has entered into a lease agreement with BC Transit for 40 years with two 10 year renewal options. The 40 year lease is to be prepaid in the amount of \$1,344,000 in full upon occupancy by BC Transit of the site.

**16. Budget Data:**

The budget data presented in these consolidated financial statements is based upon the 2010 operating and capital budgets approved by Council on May 14, 2010. The schedule below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

		Budget Amount
Revenues:		
Operating budget		\$ 85,454
Capital budget		13,144
		<u>98,598</u>
Less:		
Transfers from other funds and reserves	\$ 5,046	
Collections for other governments	34,079	39,125
		<u>59,473</u>
Total Revenue		
Expenses:		
Operating budget		95,151
Capital budget		13,144
		<u>108,295</u>
Less:		
Capital expenses	\$ 13,144	
Transfers to other funds and reserves	5,337	
Debt principal payments	1,826	
Collections for other governments	34,079	54,386
		<u>53,909</u>
Total Expenses		
Annual Surplus		<u>\$ 5,564</u>

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

**17. 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 163,000 active members and approximately 60,000 retired members. Active members include approximately 35,000 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, 2009 indicated an unfunded liability of \$1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The City of Vernon paid \$1,529,660 for employer contributions to the Plan in 2010 (\$1,341,348 in 2009).

**Notes to the Consolidated Financial Statements**

Year Ended December 31, 2010

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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. The results of the environmental study were inconclusive and as such no provision for this contingency has been recorded in the Statement of Financial Activities.



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## Auditor's 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 the financial statements of the Corporation of the City of Vernon, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statement of operations, consolidated statement of change in net debt, and cash flows for the year then ended, and a summary of significant accounting policies, and other explanatory information, and have issued our report thereon dated May 26, 2011 which contained an unmodified opinion on those financial statements. The audit was performed to form an opinion on the financial statements as a whole. The schedules of general revenue fund operations and sewer revenue fund operations for the year ended December 31, 2010 are presented for the purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

*BDO Canada LLP*

Chartered Accountants

Vernon, British Columbia  
May 26, 2011

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



	Budget 2010	Actual 2010	Actual 2009
<b>For the Year Ended December 31 (in thousands of dollars)</b>			
<b>General Revenue</b>			
Taxation	\$ 24,733	\$ 24,548	\$ 23,213
Services provided to other local governments	1,572	1,496	1,438
Government grants	4,620	4,328	4,298
Sale of services	8,054	8,224	7,956
Fiscal services	958	811	835
Natural gas system lease and franchise agreement	2,853	2,988	2,955
	<u>42,790</u>	<u>42,395</u>	<u>40,695</u>
<b>General Expenses</b>			
General government and common services	7,241	7,220	6,670
Protective services:			
Police	9,852	9,512	9,094
Fire and rescue	4,336	4,240	3,969
Emergency measures	157	202	176
Planning & building inspection	2,002	2,108	1,733
Engineering	1,078	1,096	1,162
Operations:			
Road transportation	6,125	5,921	5,836
Airport	745	857	761
Storm drainage	253	232	330
Solid waste & recycling	1,716	1,817	1,622
Cemetery	192	190	178
Other	919	913	775
Bylaw enforcement & parking control	1,099	976	970
Fiscal services:			
Interest on long-term debt	1,719	1,703	1,804
Other interest and bank charges	279	384	242
Losses on disposal of general tangible capital assets	-	1,456	1,852
Amortization of general tangible capital assets	7,367	8,452	8,513
	<u>45,080</u>	<u>47,279</u>	<u>45,687</u>
<b>General Surplus / (Deficit), before reconciling items</b>	<u>(2,290)</u>	<u>(4,884)</u>	<u>(4,992)</u>
Add: Amortization of general tangible capital assets	7,367	8,452	8,513
Add: Net losses on disposal of general tangible capital assets	-	1,220	1,846
Add: Transfers from other funds and reserves	1,175	5,156	3,503
Less: Capital asset acquisitions funded by General Fund operations	(978)	(1,070)	(790)
Less: Principal payments on long-term debt	(1,303)	(1,303)	(1,510)
Less: Transfers to other funds and reserves	(3,971)	(7,556)	(6,570)
<b>Surplus, for purposes of balanced budget and tax rate determination</b>	<u>\$ -</u>	<u>\$ 15</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 2010</b>	<b>Actual 2010</b>	<b>Actual 2009</b>
<b>Sewer Revenue</b>			
Taxation	\$ -	\$ 197	\$ 270
Services provided to other local governments	429	735	516
Government grants	185	347	83
User fees & charges	8,520	8,937	9,095
Fiscal services	-	14	5
	9,134	10,230	9,969
<b>Sewer Expenses</b>			
Common services	227	239	225
Operations:			
Collection system	898	875	812
Treatment system	3,169	2,962	2,706
Disposal system	715	666	638
Pump stations	498	418	385
Fiscal services:			
Interest on long-term debt	986	986	1,034
Losses on disposal of sewer tangible capital assets	-	264	94
Amortization of sewer tangible capital assets	2,330	2,359	2,350
	8,823	8,769	8,244
<b>Sewer Surplus, before reconciling items</b>	<b>311</b>	<b>1,461</b>	<b>1,725</b>
Add: Amortization of sewer tangible capital assets	2,330	2,359	2,350
Add: Net loss on disposal of sewer tangible capital assets	-	264	94
Add: Transfers from other funds and reserves	1,086	924	1,863
Less: Capital asset acquisitions funded by Sewer Fund operations	(1,838)	(2,260)	(1,724)
Less: Principal payments on long-term debt	(523)	(523)	(1,000)
Less: Transfers to other funds and reserves	(1,366)	(2,264)	(3,302)
	\$ -	\$ (39)	\$ 6
<b>Surplus, for purposes of balanced budget and user rate determination</b>	<b>\$ -</b>	<b>\$ (39)</b>	<b>\$ 6</b>