THE CORPORATION OF THE CITY OF VERNON

Finance Division

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

December 31, 2025

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of The Corporation of the City of Vernon (the "City") are the responsibility of management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting standards for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants. A summary of the significant accounting policies is described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

Mayor and Council meet with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the City. The accompanying independent Auditors' Report outlines their responsibilities, the scope of their examination and opinion on the City's financial statements.

Chief Administrative Officer

May 13, 2026

Director, Financial Services

May 13, 2026

KPMG LLP
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of the Corporation of the City of Vernon (the City), which comprise:

- the consolidated statement of financial position as at December 31, 2025
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2025, and its consolidated results of operations, its consolidated remeasurement of gains and losses, its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vernon, Canada

May 14, 2026

The Corporation of the City of Vernon
Consolidated Statement of Financial Position
Statement A

December 31, 2025 (in thousands of dollars)			2025		2024
Financial Assets					
Cash and cash equivalents	Note 2	$	16,016	$	11,661
Investments	Note 3		92,058		110,246
Accounts receivable	Note 4		22,798		22,706
Loans receivable	Note 5		38		229
Municipal Finance Authority cash deposits	Note 6		1,162		688
Land held for resale	Note 7		1,396		1,396
			133,468		146,926
Financial Liabilities					
Accounts payable and accrued liabilities	Note 8		40,662		37,036
Restricted developer contributions	Note 9		15,040		16,977
Deferred revenue	Note 10		12,793		12,084
Debt	Note 11		80,404		37,075
Asset retirement obligation liabilities	Note 12		5,938		5,941
			154,837		109,113
Net Financial (Debt) Assets			(21,369)		37,813
Non-financial Assets					
Tangible capital assets	Note 12 & 13		772,737		699,225
Inventory of supplies			825		815
Prepaid expenses			1,880		2,443
			775,442		702,483
Accumulated Surplus	Note 14	$	754,073	$	740,296

Commitments and contingencies — Note 19

Approved by:

Director, Financial Services

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 Operations
Statement B

For the Year Ended December 31, 2025 (in thousands of dollars)		Budget 2025 Note 22	Actual 2025	Actual 2024
Revenue				
Taxation	Note 15	$ 64,679	$ 64,691	$ 56,674
Sale of services		19,149	17,988	16,247
Utilities		12,421	12,719	12,049
Government transfers	Note 16	10,128	12,080	15,736
Services provided to other governments		3,803	3,647	3,475
Fiscal services		4,766	4,960	6,713
Developer contributions		246	5,781	7,061
		115,192	121,866	117,955
Expenses	Note 21			
General government and common services		21,946	13,221	11,426
Bylaw compliance and parking control		1,948	2,146	2,032
Protective services:				
Police		18,171	15,577	14,324
Fire and rescue		9,986	9,642	9,446
Emergency measures		560	650	851
Planning and community services		7,969	15,641	14,283
Operations services				
Road transportation		23,666	11,785	18,819
Sanitary sewer		9,512	14,254	12,945
Solid waste and recycling		3,218	3,068	2,774
Park services		4,788	5,098	4,401
Storm drainage		478	2,282	1,998
Airport		1,374	1,517	1,677
Other		1,840	3,091	3,513
Cemetery		428	415	315
Recreation services		9,715	9,702	8,224
		115,599	108,089	107,028
Annual surplus (deficit)		(407)	13,777	10,927
Accumulated Surplus, as previously reported		-	740,296	729,962
Adjustment on adoption of new revenue standard	Note 24	-	-	(593)
Accumulated surplus, beginning of year, as restated		740,296	740,296	729,369
Accumulated surplus, end of year	Note 14	$ 739,889	$ 754,073	$ 740,296

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 Net Financial (Debt) Assets
Statement C

For the Year Ended December 31, 2025 (in thousands of dollars)	Budget 2025 Note 22	Actual 2025	Actual 2024
Annual surplus (deficit)	$ (407)	$ 13,777	$ 10,927
Amortization of tangible capital assets	11,860	14,746	13,405
Net loss (gain) on sales of assets		(346)	429
Proceeds on sale of tangible capital assets		1,363	7
Acquisition of tangible capital assets		(87,936)	(50,811)
Contributed tangible capital assets from developers		(1,338)	(4,622)
Change in tangible capital assets	11,860	(73,511)	(41,592)
Changes in inventory supplies		(10)	(92)
Changes in prepaid expenses		562	(1,372)
Change in revenue standard			(593)
Changes in asset retirement obligations		-	
Change in other non-financial assets	-	552	(2,057)
Increase (decrease) in net financial assets	11,453	(59,182)	(32,722)
Net financial (debt) assets, beginning of year	37,813	37,813	70,535
Net financial (debt) assets, end of year	$ 37,813	$ (21,369)	$ 37,813

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

For the Year Ended December 31, 2025 (in thousands of dollars)		2025	2024
Operating Activities:			
Annual surplus		$ 13,777	$ 10,927
Non-cash items included in annual surplus:			
Amortization of tangible capital assets		14,746	13,405
Net (gain) loss on disposal of tangible capital assets		(346)	429
Accretion of asset retirement obligations		7	7
Increase in landfill remediation liability		-	-
Developer contributions of assets	Note 13b	(1,338)	(4,622)
Change in non-cash operating items:			
Increase in accounts receivable		(92)	(485)
Increase in accounts payable and accrued liabilities		3,626	10,129
(Decrease) increase in restricted developer contributions		(1,937)	229
Increase in deferred revenue		699	1,943
Actuarial adjustments on debt		(517)	(479)
Increase in supplies inventories		(10)	(92)
Decrease (increase) in prepaid expenses		562	(1,372)
Increase in Municipal Finance Authority cash deposits		(474)	(331)
Decrease in loans receivable		191	4
		28,894	29,692
Investing Activities:			
Net change in investments		18,188	(5,817)
Financing Activities:			
Proceeds of new debt net of transfer to debt reserve fund		45,000	29,685
Principal payments on debt		(1,154)	(544)
		43,846	29,141
Capital Activities:			
Proceeds on sale of tangible capital assets		1,363	7
Acquisition of tangible capital assets		(87,936)	(50,811)
		(86,573)	(50,804)
Decrease in cash and cash equivalents		4,355	2,212
Cash and cash equivalents, beginning of year		11,661	9,449
Cash and cash equivalents, end of year		$ 16,016	$ 11,661

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

1. Significant Accounting Policies:

The Corporation of the City of Vernon (the "City") operates under the provisions of the Local Government Act and Community Charter of British Columbia. The City provides local government services to citizens of its incorporated area including administrative, protective, transportation, sewer, storm drainage, park maintenance, recreation, community development and environmental.

a) Basis of Accounting:

The consolidated financial statements of the City are prepared by management in accordance with Public Sector Accounting Standards ("PSAS") established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Professional Accountants.

All revenue is recorded using the accrual basis, whereby revenue is recognized as it is earned and measurable. Property taxes are recognized as revenue in the year they are levied. Utility charges are recognized as revenue in the period earned. Expenses are recorded in the period in which the goods or services are acquired and a liability is incurred.

b) Basis of Consolidation:

The consolidated statements include all funds of the City and its wholly-owned other government organization subsidiaries. Inter-fund revenues, expenses, assets, and liabilities have been eliminated. The following controlled entities have been consolidated:

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

c) Measurement Uncertainty:

The preparation of financial statements 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. Significant estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets, estimating provisions for accrued liabilities and contingent liabilities, the carrying value of the landfill remediation liability, measurement of contaminated site liabilities (if identified), and in performing valuations of employee future benefits. Actual results could differ from those estimates and adjustments, if any, will be reflected in the period of settlement or upon a change in the estimate.

d) Cash and Cash Equivalents:

Management classifies all highly liquid investments with maturity of three months or less at acquisition as cash equivalents.

e) Investments:

Investments are recorded at cost. Short-term investments are those that have original maturity of less than one year. Long-term investments are those that have original maturity of more than one year.

f) Financial Instruments:

Financial instruments include cash and cash equivalents, investments, accounts receivable, and accounts payable.

Financial instruments are recorded at fair value on initial recognition. Equity instruments and derivatives that are quoted in an active market are subsequently recorded at fair value as at the reporting date. All other financial instruments are subsequently recorded at cost or amortized cost unless management elects to carry the instruments at fair value. The City has not elected to carry any other financial instruments at fair value.

Unrealized changes in fair value are recognized on the consolidated statement of remeasurement gains and losses. They are recorded in the consolidated statement of operations and accumulated surplus when they are realized. There are no unrealized changes in fair value as at December 31, 2025 and December 31, 2024. As a result, the City does not have a consolidated statement of remeasurement gains and losses.

Transaction costs incurred on the acquisition of financial instruments subsequently measured at fair value are expensed as incurred.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the consolidated statement of operations and accumulated surplus.

g) Land Held for Resale:

Land held for resale is valued at the lower of cost and net realizable value.

h) Restricted Developer Contributions:

Restricted Developer Contributions are comprised of levied and unused Development Cost Charges and Works Contribution funds. These funds are recorded as revenue in the year they are used to fund tangible capital asset acquisitions or eligible operating expenses.

i) Deferred Revenue:

Deferred revenue represents property taxes, permits and other fees that have been collected, but for which the related taxes have not yet been levied and services or inspections have yet to be performed. These amounts will be recognized in revenue in the fiscal year taxes are levied, services are performed, or revenues are earned.

j) Debt:

Debt principal payments are not charged against current operating revenue pursuant to PSAS. Interest is recorded on an accrual basis. Interest expense on long-term debt in 2025 was $2,228,391 ($566,209 in 2024). Gains or losses on repayment of debt is recorded in the Statement of Operations.

k) Asset Retirement Obligations:

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and,
- A reasonable estimate of the amount can be made.

The City's asset retirement obligations are comprised of two components: estimated asbestos abatement costs for City-owned buildings and estimated closure and post-closure costs for the Hesperia Landfill.

Measurement of the asset retirement obligation is based on the best estimate of future cash flows that will be required to settle the liability. The estimate of the ARO include costs directly attributable to the asset retirement activities.

The estimated costs have been recorded as a liability and capitalized into the carrying amount of tangible capital assets, which is being amortized in accordance with the amortization accounting policy outlined in Note 1o. The carrying value of the liability is reviewed at each financial reporting date with changes to the timing or amount of the original estimate of cash flows recorded as an adjustment to the liability and related tangible capital asset. Changes in the liability due to the passage of time are recorded as an accretion expense and are incorporated into the Statement of Operations and Accumulated Surplus.

If the related tangible capital asset is no longer in productive use or unrecognized, any unamortized asset retirement obligation is immediately expensed.

Estimated ARO amounts for City-owned buildings are amortized over the remaining useful life of each building on a straight-line basis. For buildings that have been fully amortized or have a remaining useful life of fewer than 15 years, the amortization term has been determined to be 15 years. Discounting has not been used in the calculation due to the fact that the City does not have any short-term end-of-life plans for City-owned buildings.

Estimated ARO amounts for Hesperia Landfill have been calculated based on empirical data provided by independent consultants for both closure and post-closure costs over a specified period of time at the end of the asset's estimated useful life. Discounting is being used for the calculation based on the City's cost of borrowing at the end of the fiscal year and the average inflation rate experienced during the fiscal year.

l) Liability for Contaminated Sites:

A liability for remediation of contaminated sites is recognized when all the following criteria are met: an environmental standard exists, contamination exceeds the environmental standard, the City is directly responsible or accepts responsibility, and a reasonable estimate of the amount can be made. The liability is recorded net of any expected recoveries. The City currently has not identified any contaminated sites.

(tabular amounts in thousands of dollars)

m) 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 financial assets for the year.

n) Inventory:

Inventory held for consumption is recorded using the weighted average method.

o) 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 and engineering fees, and site preparation costs. The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset. 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, as follows:

Transportation infrastructure:		
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 drainage infrastructure	Straight-line	75 years
Sanitary sewer infrastructure	Straight-line	75 years
Buildings	Straight-line	10 to 60 years
Vehicles	Straight-line	5 to 29 years
Miscellaneous equipment	Straight-line	6 to 30 years
Information technology	Declining balance	40%

p) 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.

q) Employee Future Benefits:

The City and its employees make contributions to the Municipal Pension Plan. As this plan is a multi-employer plan, the City's contributions are expensed as incurred. Sick leave and other retirement benefits are also available to the City's employees. The costs of these benefits are determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligations under these benefit plans are accrued based on projected benefits as the employees render services necessary to earn future benefits.

(tabular amounts in thousands of dollars)

r) Government Transfers:

Government transfers are recognized 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. Transfers received in the current year that do not meet these criteria are recorded as deferred revenue.

s) Collection on Behalf of Other Authorities:

The City is required to collect and remit taxes on behalf of other tax authorities. Collections for other authorities are excluded from City revenues.

t) Budget Figures:

The budget figures are from the annual Financial Plan Bylaw. They have been reallocated to conform to PSAS financial statement presentation requirements where appropriate. 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 (note 22).

u) Segment Disclosures:

Segmented financial information is presented in groups of distinguishable activities in a similar approach to the City's internally reported cost centers. 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 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 considered common to the City as a whole and reported in general government (note 21).

2. Cash and Cash Equivalents:

	2025	2024
Restricted:		
Restricted developer contributions	$ 15,040	$ 16,977
Deferred revenue	12,793	12,084
Statutory reserves	11,783	10,732
	39,616	39,793
Restricted cash in short-term investments:	(30,114)	(28,132)
Unrestricted	$ 16,016	$ 11,661

The City has access to an operating line of credit not exceeding $2.0 million (2024 - $2.0 million). Interest is accrued based on Bank of Montreal's prime lending rate. As of December 31, 2025, this line of credit was not being utilized (2024 - $0).

(tabular amounts in thousands of dollars)

3. Investments:

		2025		2024
Short-term investments	$	30,114	$	47,110
Long-term investments		61,944		63,136
	$	92,058	$	110,246

All investments are comprised of guaranteed investment certificates, with accrued interest being recognized, as such, the cost equals the fair market value. Included in long-term investments is $7,348,500 which matures in 2026 (2024 -$30,088,002 which matured in 2025).

4. Accounts Receivable:

		2025		2024
Property taxes	$	2,548	$	2,252
Utility billings		9,374		8,925
Other governments		1,055		1,050
Trade and other receivables		10,121		10,734
		23,098		22,961
Allowance for doubtful trade accounts receivable		(300)		(255)
	$	22,798	$	22,706

5. Loans Receivable:

		2025		2024
Vernon Pickleball Association - interest free (due: December 31, 2029)	$	38	$	52
City of Vernon employees - interest bearing using CRA established rate (due: November 30, 2025) program discontinued December 1, 2025		-		177
	$	38	$	229

6. Municipal Finance Authority – Cash Deposits:

The City's debt is issued through the Municipal Finance Authority ("MFA"). As a condition of these borrowings, the City is obligated to lodge security by means of demand notes and interest-bearing cash deposits based on the amount of the borrowing. The deposits are included in the City's financial statements as Municipal Finance Authority deposits. If the debt is repaid without default, the deposits are refunded to the City. The demand notes, which are contingent in nature, are held by the MFA to act as security against the possibility of debt repayment default.

As at December 31, 2025, there were contingent demand notes of $1,906,226 (2024 - $1,085,000) which are not recorded in the financial statements (note 19(b)). Upon the maturity of a debt issue, the demand notes are released and deposits refunded to the City.

(tabular amounts in thousands of dollars)

7. Land Held for Resale:

In 2017, the City entered into a Land Purchase and Development Framework agreement for the conditional sale of City owned land. The accumulated value of these lands is $1,396,000 (2024 - $1,396,000) which is comprised of the historical cost of the lands plus all prior improvements. Such costs have not been included in tangible capital assets since the land and improvements are subject to resale.

8. Accounts Payable and Accrued Liabilities:

	2025	2024
Accounts payable and accrued liabilities	$ 21,782	$ 20,868
Salaries, wages and related costs	7,606	7,920
Security deposits and contractor holdbacks	11,274	8,248
	$ 40,662	$ 37,036

9. Restricted Developer Contributions:

Restricted developer contributions include Works Contribution funds and Development Cost Charges ("DCC's"). Works Contribution funds are charged to developers through a works contribution agreement requiring the City to use funds for future work to, or adjacent to, each property. DCC's are collected to pay for 95% of the general capital costs due to development and 90% of utility capital costs on specified projects. In accordance with the Local Government Act, these funds must be deposited into a separate reserve fund. DCC's are deferred and recognized as revenue when the related costs are incurred.

	2025	2024
Deferred charges:		
DCC - roads	$ 1,724	$ 4,253
DCC - storm	1,390	1,760
DCC - sewer	6,671	6,273
DCC - parks	2,951	2,453
Works contributions	2,304	2,238
	$ 15,040	$ 16,977
Restricted developer contributions, beginning of year	$ 16,977	$ 16,748
DCC's levied during the year	1,836	1,828
Works contributions received	67	22
Investment income	603	818
Contributions available	19,483	19,416
Less: Capital transfers	4,197	1,394
Less: Operating transfers	246	1,045
Restricted developer contributions, end of year	$ 15,040	$ 16,977

(tabular amounts in thousands of dollars)

10. Deferred Revenue:

	2025	2024
Prepaid property taxes	$ 7,838	$ 7,013
Prepaid utility charges	302	298
Prepaid transfers from other governments	523	755
Other prepaid revenue	4,130	4,018
	$ 12,793	$ 12,084

11. Debt:

All debt is reported net of sinking fund balances. Sinking fund installments are invested by the MFA and earn income, which together with principal payments are expected to be sufficient to retire the debt issue at maturity. Where the MFA has determined that sufficient funds exist to retire a debt issue on its maturity date without further installments, payments are suspended by the MFA and the City's liability is reduced to nil. Should those funds prove to be insufficient at maturity, the resulting deficiency becomes a liability of the City.

Bylaw #	Purpose of Bylaw	Interest Rate %	Year of Maturity	Balance, Beginning of Year	Additions	Principal Payments	Actuarial Adjustment	Balance, End of Year
4680	Treatment Plant Phase I	1.47%	2027	$ 966	$ -	$ 105	$ 202	$ 659
4680	Treatment Plant Phase II	2.85%	2028	511	-	59	61	391
4791	Water Reclamation Plant	0.91%	2030	4,098	-	380	254	3,464
5908	Active Living Centre	3.83%	2054	31,500	-	610	-	30,890
5908	Active Living Centre	3.55%	2055	-	45,000	-	-	45,000
				$ 37,075	$ 45,000	$ 1,154	$517	$ 80,404

The principal portion of debt is added to the MFA sinking fund, which is secured against the debt and invested over the term of the loan.

Repayments of debt in the next five years and thereafter are as follows:

	Repayment
2026	$ 2,018
2027	2,018
2028	2,018
2029	1,855
2030	1,855
2031 and thereafter	70,640
	80,404

(tabular amounts in thousands of dollars)

12. Asset Retirement Obligations:

Asset Retirement Obligations (ARO) are comprised of two components: asbestos abatement costs for City-owned buildings; and closure and post-closure costs for Hesperia Landfill.

ARO for buildings represent the undiscounted estimated costs to abate asbestos in nineteen different buildings owned by the City.

The City operates the Hesperia landfill as a demolition, land clearing and construction material disposal facility under an Operational Certificate ("OC") issued by the Province of BC's Ministry of Environment ("MOE"). The OC excludes domestic refuse, plastics, rubber, contaminated soils and other non- construction wastes. The Hesperia landfill only accepts waste from City projects and does not accept public waste.

The ARO for closure and post-closure care is recognized based on the 2023 Operating and Closure Plan ("the Plan"). The Plan estimates closure costs based on the assumption that the landfill will be closed at the end of its predetermined useful life; however, some of the estimated closure costs will be expended sooner as the landfill is anticipated to be closed progressively.

The closure costs estimated in the Plan is in current dollars and has been inflated to the end of the landfill's useful life using an inflation rate of 3.98% and then discounted to the financial reporting date at 4.2% which is the City's cost of capital on any new debt as of the same date.

The City has implemented a tipping fee charged to internal projects that discharge waste at the landfill with net proceeds contributed to a reserve to pay for closure related expenses. On December 31, 2025 the balance of this reserve is $451,000 (2024 - $398,000). When the landfill closes at the end of its useful life it is estimated that post-closure care will be required for 25 years.

Assets	Gross Asset Value	Accum. Amortization Opening Balance	2025 Amortization	Accum. Amortization Ending Balance	Net Ending Balance
Buildings	$ 2,616	$ 342	$ 171	$ 513	$ 2,103
Hesperia Landfill	3,318	214	107	321	2,997
	$ 5,934	$ 556	$ 278	$ 834	$ 5,100

Liabilities	Opening Balance	2025 Accretion Costs	2025 Accretion Expense	Closing Balance
Buildings	$ 2,616	$ 5	$ -	$ 2,611
Hesperia Landfill	3,325	6	7	3,327
	$ 5,941	$ 11	$ 7	$ 5,938

Year Ended December 31, 2025
(tabular amounts in thousands of dollars)

13. Tangible Capital Assets:

				Infrastructure				
	Land	Buildings	Equipment/ Vehicles	Transportation	Storm Drainage	Sanitary Sewer	2025	2024
Historical Cost:								
Opening balance	$ 291,360	$ 143,270	$ 38,971	$ 276,090	$ 99,995	$ 122,439	$ 972,126	$ 918,272
Additions	80	59,440	4,525	13,915	7,570	3,744	89,274	55,433
Disposals	(602)	-	(1,006)	(278)	(285)	(194)	(2,365)	(1,579)
Closing balance	290,838	202,710	42,490	289,727	107,280	125,989	1,059,035	972,126
Accumulated Amortization:								
Opening balance	-	40,128	17,608	144,975	30,728	39,462	272,901	260,639
Amortization	-	2,562	2,517	6,159	1,449	1,781	14,468	13,127
Amortization of ARO	-	171	-	107	-	-	278	278
Disposals	-	-	(881)	(198)	(165)	(105)	(1,349)	(1,143)
Closing balance	-	42,861	19,244	151,043	32,012	41,138	286,298	272,901
Net Book Value	$ 290,838	$ 159,849	$ 23,246	$ 138,684	$ 75,268	$ 84,851	$ 772,737	$ 699,225

a) Work-in-progress:

Work-in-progress is comprised of costs related to projects currently under planning, development or construction that will result in a finished asset at a future date. Such costs are capitalized until such time as the property is ready for use. Work-in-progress having a value of $89,564,072 (2024 - $40,693,112) has not been amortized. Amortization of these assets will commence the year when each specific asset is put into service.

b) Contributed Tangible Capital Assets:

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is $1,337,774 (2024 - $4,621,773) comprised of transportation infrastructure in the amount of $504,408, storm drain infrastructure in the amount of $328,530, and sanitary sewer infrastructure in the amount of $504,836.

c) Tangible Capital Assets Recognized at Nominal Values:

Where an estimate of fair value is not determinable, the tangible capital asset is recognized at a nominal value.

d) Intangible Assets:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at city sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

e) Write-down of Tangible Capital Assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the City's ability to provide goods and services. Any impairment is accounted for as an expense in the consolidated statement of operations. No impairments were identified or recorded during the year ended December 31, 2025 and 2024.

(tabular amounts in thousands of dollars)

14. Accumulated Surplus:

Accumulated surplus consists of individual fund surpluses and reserves. Operating surplus for the City is as follows:

	2025	2024
Accumulated surplus per Statement of Financial Position	$ 754,073	$ 740,296
Less:		
Tangible capital assets	(772,737)	(699,225)
Asset retirement obligations	5,938	5,941
Debt	80,404	37,075
Inventory of supplies	(825)	(815)
Prepaid expenses	(1,880)	(2,443)
	64,973	80,829
Non-statutory Reserves		
Budget Carryover Reserve General	279	702
Capital Reserves General	30,466	35,343
Capital Reserves Sewer	3,944	4,024
Operating and Tax Equalization Reserves General	6,609	17,478
Tax Equalization Reserves Sewer	7,415	7,800
Special Purpose Reserves	4,477	4,751
	53,190	70,098
Statutory Reserve Funds		
Highway Access to Water Reserve	1,114	1,066
Land Sale Reserve	1,501	377
Local Improvement Reserve	522	500
Parkland Reserve	318	304
Recreation Facility Operating Reserve	366	350
Recreation Facility Major Maintenance Reserve	1,867	1,098
Growing Communities Reserve	6,095	7,036
	11,783	10,731
Total Reserve Funds	64,973	80,829
Unappropriated Surplus (Deficit)	$ -	$ -

(tabular amounts in thousands of dollars)

15. Taxation Revenue:

Total tax revenue net of transfers of taxes collected for other governments and agencies were as follows:

	2025	2024
Specific assessments:		
Residential	$ 42,353	$ 37,454
Business	17,874	15,875
Utilities	487	494
Light Industrial	1,018	911
Recreation & Non-profit	211	212
Farm land	5	4
	61,948	54,950
Payments in lieu of taxes	2,518	1,918
Specified area taxes and other	225	(194)
	$ 64,691	$ 56,674

16. Transfers from Other Governments:

	2025	2024
Federal government transfers		
Transportation infrastructure	$ 2,091	$ 2,091
Provincial government transfers		
Transit subsidy	3,416	3,077
Casino revenue sharing	1,729	1,798
Hotel tax	1,555	1,441
Climate Adaptation Disaster Risk Reduction	759	-
Vulnerable population initiatives	-	106
Local Government Climate Action Program	527	255
Traffic fine revenue sharing	535	494
Emergency Management BC	481	350
Keep of prisoners recoveries	157	140
Certificate of Recognition safety program	120	102
Transportation infrastructure	158	4,268
Tourism BC	25	86
Other transfers	272	4
	9,734	12,121
Regional government transfers		
Other initiatives		853
Recreational initiatives	119	515
Okanagan Basin Water Board	136	156
	255	1,524
Total transfers from other governments	$ 12,080	$ 15,736

(tabular amounts in thousands of dollars)

17. Long-term Agreements with Regional District of North Okanagan (the "Regional District"):

a) Water Agreement:

The City has entered into a five-year agreement with the Regional District for the operation of the water system in Vernon and Electoral Areas B and C and owned by the Regional District. Under this agreement, the City is responsible for the day-to-day operation of the water system within the City, a portion of the Township of Spallumcheen and Areas B and C, and is wholly reimbursed by the Regional District for the operating expenses made to undertake these duties. The agreement expires January 31, 2028.

b) Parks Agreements:

The City entered into an agreement with the Regional District to assume responsibility for the management and operation of local parks commencing January 1, 2018. This agreement transfers the legal interest in Vernon fields and beaches (previously designated as "sub-regional parks") to the City. As per the requirements of the agreement, the City has a Parks DCC bylaw approved by the Ministry of Housing and Municipal Affairs ("the Ministry"). Prior to the City's Parks DCC bylaw being approved by the Ministry, Parks DCCs were collected under the Regional District's Parks DCC bylaw with an allocation based on contributions from each jurisdiction. The amount allocated to the City as of December 31, 2025 was $2,932,000 (2024 - $2,932,000), which is not recognized in the financial statements.

c) Recreation Agreements:

The City has entered into a five-year agreement with the Regional District to assume the responsibility for the management and operation of local recreational facilities commencing January 1, 2019. The new agreement maintains the commitment to transfer recreation facilities and related land from the Regional District to the City to re-align responsibility for the facilities and programming to the City. Facilities owned by the Regional District with fair market value of $14,241,000 have not yet transferred to the City, and are anticipated to transfer in the year ending December 31, 2037. The agreement expired December 31, 2023. During 2023, negotiations commenced for a renewed agreement. However, consensus was not reached and the pre-existing agreement lapsed. For 2025, the Regional District and the District of Coldstream agreed to a simple fee-for-service arrangement to enable residents of Regional District Electoral Areas B & C and the District of Coldstream to obtain equivalent rates and access to facilities and programs as residents of Vernon.

18. 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. The Fund balance is not included in the consolidated financial statements.

	2025	2024
Trust Fund Continuity:		
Balance, beginning of year	$ 1,211	$ 1,114
Interest earned	43	62
Proceeds from plot sales and memorial settings	34	35
Balance, end of year	$ 1,288	$ 1,211

19. Contingent Liabilities:

a) 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 Demand Notes:

Debentures are covered by a loan agreement with the MFA 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. As these demand notes are contingent in nature, no liability is recorded.

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, will be accounted for as an expense in the period in which realization is known.

e) Pension Liability:

The City and its employees contribute to the Municipal Pension Plan (a jointly trustees pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2024, the plan has about 273,000 active members and approximately 133,000 retired members. Active members include approximately 47,000 contributors from local government.

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

The most recent valuation for the Municipal Pension Plan as at December 31, 2024, indicated a $2,675 million funding surplus for basic pension benefits on a going concern basis.

The next valuation will be as at December 31, 2027.

The City paid $3,392,217 (2024 - $3,005,780) for employer contributions while employees contributed $3,001,089 (2024 - $2,638,779) to the plan in fiscal 2025.

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

f) Letters of Credit:

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 amount of the Letter of Credit is $716,000. As of December 31, 2025, no drawing on the Letter of Credit has occurred (2024 - $0).

In 2022, the City issued an Irrevocable Letter of Credit in favour of the Federal Government Department of Fisheries and Oceans as security to fund works required as a condition of a permit to construct a storm water sediment structure along BX Creek. The amount of the Letter of Credit is $352,500. As of December 31, 2025, no drawing on the Letter of Credit has occurred (2024 - $0).

In 2024, the City issued an Irrevocable Standby Letter of Credit in favour of the Receiver General for Canada as security to fund works required as a condition of the 43rd Street Bridge Replacement project. The amount of the Letter of Credit is $180,000. As of December 31, 2025, no drawing on the Letter of Credit has occurred (2024 - $0).

20. Segmented Information:

Segmented information has been grouped into related department functions or service areas for segment reporting purposes provided in note 21 which shows the associated revenues and expenses for each segment. The various segments are described as follows:

a) General Government:

This segment is comprised of all general government and common services provided within the City. It includes legislative services, corporate administration, tourism, finance, human resources, information services, civic building maintenance, bylaw compliance, parking control, and subsidiary corporations.

- Legislative services and corporate administration are responsible for general government administration including council support, conducting elections and records management.
- Tourism is responsible for tourism marketing and managing the City's tourist booth location.
- Finance is responsible for the oversight of all financial matters including financial planning, collection of revenues, purchasing and financial reporting.
- Human resources are responsible for staff recruiting, payroll processing, occupational health and safety and labour relations.
- Information services are responsible for planning, maintaining and operating the City's information systems.
- Civic building maintenance is responsible for maintaining all buildings owned by the City.
- Bylaw compliance and parking control is responsible for administrating and encouraging compliance to regulatory bylaws, patrolling City owned/leased paid parking lots, residential permit zones and restricted parking areas. They also patrol and maintain almost 1,000 parking meters. This function focuses on community security and safety programs in conjunction with police services.
- The City's subsidiary corporations are 100% owned.
- Revenues associated with this segment include all those amounts that can not be attributed directly to other segments including taxation, grants in lieu, interest revenue and property rental revenue.

b) Protective Services:

This segment is comprised of police services, fire rescue and emergency measure services.

- Police services are contracted to the RCMP with support assistance from municipal staff. The City is home to a regional detachment for the North Okanagan. The City has a proactive community policing group that provides programs for its citizens and businesses such as Citizens on Patrol, Crime Stopper, Block Watch and safety patrols.
- Fire rescue services proved fire response, investigation and prevention services within the City's fire department.

c) Community Infrastructure:

This segment is comprised of community development, planning, building inspection services and the capital works program.

- Community Development is responsible for sustainable development throughout the City including environmental, economic and social development.
- Planning is responsible for land use planning – long term and short term – plus the administration of the Official Community Plan and zoning bylaws.
- Building inspection services is responsible for issuing permits for any developments in the City including building permits, rezoning and development permits.
- The GIS department catalogues the City's infrastructure geographically for use by the City and its citizens.

d) Operations:

This segment is responsible for the engineering, operation and maintenance of the City's infrastructure assets including roads, sidewalks and storm drains. Other components include public transit, solid waste and recycling, cemetery and airport.

- Road transportation encompasses year-round maintenance of roads, street lights, signs and sidewalks plus the public transit system which is contracted with BC Transit with subsidies provided from the Province.
- Storm drainage includes the maintenance of storm infrastructures including mains, manholes and catch basins.
- The Vernon Regional Airport provides services to small aircraft and executive jets in the region and includes a paved lighted runway, hangars, jet and regular air fuel dispensing.
- The City has one cemetery whose operation is overseen by the Operations group. Other services provided within the City include overseeing fleet activities and support for Regional District water services.
- Engineering is responsible for the planning and implementation of the capital works program for all infrastructure – storm, sewer and transportation. They work in conjunction with Planning and Operations.

e) Sanitary Sewer Operations:

This segment is responsible for the entire sanitary sewer operation and maintenance of the sewer infrastructures including mains, manholes, catch basins and lift stations. Plus, it is responsible for the operation and maintenance of the Vernon Water Reclamation Centre and spray irrigation system.

f) Recreation:

This segment is responsible for the management, maintenance and operation of all recreation facilities within the City. This includes planning and delivery of recreation programs for all ages of citizens, maintenance and operation of all arenas and indoor pool. As well as operating two outdoor pools in the summer.

(tabular amounts in thousands of dollars)

21. Segment Disclosure:

	General Government	Protective Services	Planning & Engineering	Recreation	Operation Services	Sanitary Sewer	2025	2024
Revenue								
Taxation	$ 64,474	$ -	$ -	$ -	$ -	$ 217	$ 64,691	$ 56,674
Services to other governments	712	264	129	1,486	512	544	3,647	3,475
Government transfers	3,941	783	5,791	173	1,256	136	12,080	15,735
Utility services	-	-	-	-	-	12,719	12,719	12,049
Sale of services	2,150	326	5,243	4,218	6,048	3	17,988	16,248
Fiscal services	4,992	-	(602)	-	42	528	4,960	6,713
Developer Contributions	245	-	22	-	4,710	804	5,781	7,061
	76,514	1,373	10,583	5,877	12,568	14,951	121,866	117,955
Expenses								
Salaries and wages	10,002	11,929	5,726	5,897	8,530	3,178	45,262	42,364
Contracted services	1,871	466	8,709	1,139	4,843	1,230	18,258	21,916
RCMP contract	-	12,206	-	-	-	-	12,206	11,213
Amortization	766	390	-	187	10,081	3,329	14,753	13,412
Supplies, materials and other	1,727	587	1,129	772	3,937	1,886	10,038	11,009
Bank fees and net loss on assets	1,824	-	8	74	257	419	2,582	1,566
Utilities, telephone and insurance	601	44	19	1,444	1,720	1,134	4,962	4,945
Equipment charges	(1,424)	247	50	189	(2,112)	3,078	28	603
	15,367	25,869	15,641	9,702	27,256	14,254	108,089	107,028
Excess (deficiency) revenue over expenses	$ 61,147	$ (24,496)	$ (5,058)	$ (3,825)	$ (14,688)	$ 697	$ 13,777	$ 10,927

(tabular amounts in thousands of dollars)

22. Budget Data:

The budget data presented in these consolidate financial statements is based upon the 2025 operating and capital budgets approved by Council on January 27, 2025. The schedule reconciles the approved budget in the 2025-2029 Financial Plan to the budget figures reported in these consolidated financial statements.

	2025
Budget Deficit as presented	$ (407)
Transfers to reserves	(17,507)
Transfers from reserves	34,760
Add back amortization and accretion	12,931
Debt principal payments	(1,154)
Capital expenditures	(28,623)
	$ -

23. Comparative Figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. The changes do not affect prior year annual surplus.

24. Adoption of New Accounting Standards:

In addition to the adoption of PS 3280 Asset Retirement Obligations and PS 3540 Financial Instruments on January 1, 2024 the City adopted Canadian public sector accounting standard PS 3400 Revenues. This required a $593,000 prior year adjustment to deferred revenue to recognize transaction fee revenues that will be matched to the performance obligation when it has been satisfied.

There were also changes in Canadian public sector accounting standards for PSG-8 Purchased Intangibles and PS3160 Public Private Partnerships effective April 1,2023. Neither of these standards had impacts to the financial statements.

The Corporation of the City of Vernon
Schedule of COVID-19 Safe Restart Grant Spending (unaudited)

Year Ended December 31, 2025
(tabular amounts in thousands of dollars)

In November 2020 the provincial government announced the "COVID-19 Safe Restart Grants for Local Governments", which provided up to $425 million for local operations impacted by COVID-19. The Ministry of Municipal Affairs and Housing set a grant amount for each local government, of which $4,997,000 was awarded to the City of Vernon. These funds are to be used to address revenue shortfalls, facility reopening and operating costs, emergency planning and response costs, protective services costs, virtual communications and enhanced interconnectivity costs, services for vulnerable persons, and other related costs. To ensure transparency regarding the use of the funds, the City is required to report annually on how it spent the grant as part of our annual report. This reporting must continue until the grant funds are fully spent.

Allocated to:

	2025	2024
Revenue		
Revenue shortfalls	$ -	$ -
Expenses		
Grants to non-profits	-	30
Labour	-	32
Disinfection supplies	-	-
Contracted services	-	73
	-	135
	-	135
COVID-19 Safe Restart grant, beginning of year	109	244
COVID-19 Safe Restart grant, end of year	$ 109	$ 109

The Corporation of the City of Vernon

Schedule of Growing Communities Fund Spending (unaudited)

For the Year Ended December 31, 2025

(tabular amounts in thousands of dollars)

In March of 2023, the Province of British Columbia distributed conditional Growing Communities Fund (GCF) grants to local governments to help build community infrastructure and amenities to meet the demands of population growth. The GCF provided a one-time total of $1 billion in grants to all 161 municipalities and 27 regional districts in British Columbia. The City of Vernon received $9,575,000 of GCF in 2023.

Growing Communities Reserve Fund	2025	2024
Balance, beginning of year	$ 7,036	$ 10,003
Add: Interest earned	288	477
Less: Eligible costs	(1,229)	(3,444)
Balance, end of year	$ 6,095	$ 7,036