



THE CORPORATION OF THE CITY OF VERNON

A G E N D A

COMMITTEE OF THE WHOLE

CITY HALL COUNCIL CHAMBER

MONDAY, May 14, 2018

AT 8:40 AM

"To deliver effective and efficient, local government services that benefit our citizens, our businesses, our environment and our future"

AGENDA

1. CALL TO ORDER

- A. THAT the Agenda for the May 14, 2018, Committee of the Whole meeting be adopted as presented.

2. ADOPTION OF MINUTES

- A. THAT the minutes of the Committee of the Whole meeting of Council held April 23, 2018, be adopted.
(P. 3)

MINUTES

3. BUSINESS ARISING FROM THE MINUTES

4. GENERAL MATTERS

5. UNFINISHED BUSINESS

6. NEW BUSINESS

PRESENTATION - AUDITORS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 (P. 8)

- A. Murray Smith, CA, Audit Partner, and Craig Woods, CA, Audit Manager, of KPMG will be in attendance to present the Consolidated Financial Statements' for the year ended December 31, 2017.

THAT Council receives and approves the 2017 Audited Financial Statements as presented by representatives of KPMG, LLP, at the May 14, 2018 Committee of the Whole meeting.

7. LEGISLATIVE MATTERS

8. COUNCIL INFORMATION UPDATES

9. G.V.A.C. / R.D.N.O REGULAR MEETINGS

10. INFORMATION ITEMS

11. CLOSE OF MEETING

THE CORPORATION OF THE CITY OF VERNON

**MINUTES OF A COMMITTEE OF THE WHOLE MEETING
HELD MONDAY, APRIL 23, 2018**

PRESENT: Mayor A. Mund

Councillors: B. Spiers, J. Cunningham, S. Anderson,
C. Lord, B. Quiring, (D. Nahal, absent)

Staff: W. Pearce, CAO
P. Bridal, Director, Corporate Services/DCAO
S. Blakely, Manager, Legislative Services
K. Flick, Director, Community Infrastructure & Dev.
D. Law, Director, Financial Services
N. Nilsen, Communications Officer and Grants Coordinator
D. Lees, Sr. Bylaw Compliance Officer*
R. Miles, Manager, Long Range Planning & Sustainability
B. Bandy, Real Estate Manager
J. Rice, Manager, Public Works
J. Clary, Advisor, Learning & Development
G. Gaucher, Manager, Protective Services
D. Ross, Director, Recreation Services
C. Corbett, Long Range Planner
S. Mitchell, Manager, Arenas
R. Manjak, Director, Human Resources*
C. Fredin, Health & Safety Coordinator*
K. Natsuhara, Payroll Clerk*
L. Valair, HR Assistant*
P. McLuckie, Manager, Human Resources*

**Attended as required*

Others: Media
Members of the Public

CALL TO ORDER Mayor Akbal Mund called the meeting to order at 8:41 am.

AGENDA ADOPTION Moved by Councillor Cunningham, seconded by Councillor Quiring:

THAT the Agenda for the April 23, 2018, Committee of the Whole meeting be adopted as presented.

CARRIED.

ADOPTION OF THE MINUTES Moved by Councillor Cunningham, seconded by Councillor Anderson:

THAT the minutes of the Committee of the Whole meeting of Council held April 9, 2018, be adopted, as presented.

CARRIED.

BUSINESS ARISING FROM THE MINUTES**GENERAL MATTERS****NEW BUSINESS****DRAFT YOUTHFUL
VERNON STRATEGY
(6441-20)**

Cleo Corbett provided a review of the Draft Youthful Vernon Strategy.

The following points were noted:**Cleo Corbett, Long Range Planner**

- Noted Members of Sub Committee present at meeting

Lynn Reside, Project Coordinator

- Working Together – Ongoing Partnerships
- History 2008 – 2018 reviewed
 - Vernon Official Community Plan
 - 25 Year Master Transportation Plan
 - Bicycle and Pedestrian Master Plan
 - Cities Fit for Children Conference 2015
 - Parks Master Plan 2015
 - School Travel Planning 2009-2016
 - Child, Youth & Family Friendly Policy Framework
 - Renewed Partnership Agreement
 - Plan H Funding 2017 – to present
 - Vernon Community School
 - City representation on the Early Years Council

Janelle Rimell, Healthy Communities Environmental Health Officer, Interior Health Rep

- Signed renewed partnership agreement
- Partner with City of Vernon (COV) to provide health data, resources
- Assisted with Plan H Application for funding

Cleo Corbett, Long Range Planner

- Why is it important to be a 'Youth Friendly' Community – Reviewed
- What was done?
 - Research – including UBCO & ICER
 - Existing Policy Review and Assessment
 - Development of recommendations
 - Community Engagement
 - Development of the Youthful Vernon Draft Strategy
- Review of Best Practices, existing strategies,

Lynn Reside, Project Coordinator

- Reviewed Public Participation Process
 - National Child Day November 2017 launch event
 - Focus groups with a broad spectrum of stakeholders
 - Community Forum Luncheon youth, elected officials, community stakeholders and City staff

Cleo Corbett, Long Range Planner

- 44 recommendations provided in Draft Plan in 7 Domains
- Tried not to duplicate what is already in other plans, but rather enhance
 - Play in the Built Environment
 - Transportation
 - Local Government
 - Arts and Culture
 - Healthy Community Development
 - Child Care
 - Youthful Vernon Charter
 - Missing – Safety
- **Next Steps:**
 - Referral and review process
 - Refine the Strategy Based on P2 Feedback
 - Determine Community Partners and Lead Organizations
 - Provide more specific, measureable and tractable action
 - Include financial consideration
- Introduced Members of Youthful Vernon Steering Committee
- **Carson Armitage** – *‘Really incredible – having Vernon Community School involved in World Café was amazing – thank you for support’*
- **Janelle Rimell** – *‘City is progressive in their desire to make Community more child and youth friendly’*
- *‘Having strong policies impacts the wellbeing of children and youth – hopeful Council will endorse’*
- **Lynne Reside** – *‘Grateful for support from COV over the years’*
- *‘Children increasingly growing up in urban environments’*
- *‘Built environment and access to nature is extremely important’*
- *‘COV in forefront of support in the Province’*

Moved by Councillor Lord, seconded by Councillor Quiring:

THAT Council direct Administration to refer the draft Youthful Vernon Strategy to the public and stakeholder organizations for comment and review as outlined in the report titled “Draft Youthful Vernon Strategy” and dated April 11, 2018 from the Long Range Planner;

AND FURTHER, that Council authorize Mayor Mund to send a letter of appreciation to the University of British Columbia (Okanagan) Institute for Community Engaged Research and the students who provided research assistance in the development of the Youthful Vernon Strategy.

CARRIED.

**CITY OF VERNON
OCCUPATIONAL HEALTH
AND SAFETY UPDATE:
WORKSAFE BC (WSBC)
AND CERTIFICATE OF
RECOGNITION (COR)
(2640-01)**

Clay Fredin, Health & Safety Coordinator, provided a presentation regarding the City of Vernon Occupational Health and Safety Update: Worksafe BC (WSBC) and Certificate of Recognition (COR).

The following points were noted:

- \$56,688 increased cost of insurance in 2018
- Reviewed reasons for increase (higher injury claims costs and decrease of the WSBC Industry Base Rate for Local Government)
- Net rate increase of \$0.54 from \$1.61 in 2017 to \$2.15 in 2018
- Comparative Charts reviewed
- Post-Traumatic Stress Disorder (PTSD) becoming a more commonly accepted claim
- Labour Ministry announced legislative amendments to Workers Compensation Act that will add PTSD and other mental disorders to recognized list of presumptive conditions association with specific types of jobs
- Addressing Mental Wellness in the workplace
- 2017 initiated a partnership with the Canadian Mental Health Association to build an “Activate Mental Health” Initiative to address areas of moderate to high risk
 - Lunch & Learn Series
 - Benchmark establishment and review
 - Rather than focusing on individual mental health, benchmark has anonymous survey entitled “Guarding Minds” which will focus on how organizational policy, procedures, processes and interactions affect our employee’s health and safety
 - Conversations will be taking place across the Corporation and with our unions, CUPE and IAFF, to align our commitment to build psychological safety into all aspects of ongoing operations.
 - Specifically, this will address absenteeism, presenteeism, decreased productivity, and increased healthcare expenses.
 - Various studies have shown that for every \$1 an organization invests in injury prevention which includes mental disabilities, you can expect a \$2-\$6 return.

- City has dedicated much time and effort to achieving success through the WSBC COR program
- Achieving and maintaining COR takes a dedicated, engaged workforce. Through an unwavering commitment to safety, we strive to send every worker home, every day, healthy and safe.
- City has benefitted in total value by \$344,640 from 2011 to 2017 due to the COR program.
- Including the \$469,087 in WSBC insurance premium savings, the City of Vernon will have realized savings of \$813,727 from 2011 to the end of the current year, 2018.
- The incentive payments received through the COR program alone continue to offer opportunity for the City to enhance Health and Safety initiatives, making this a safer workplace for our employees.

Moved by Councillor Quiring, seconded by Councillor Cunningham:

THAT Council receive the City of Vernon Occupational Health and Safety Update: WorkSafe BC (WSBC) and Certificate of Recognition (COR), as provided in the memorandum dated April 10, 2018 from the Coordinator, Health and Safety.
CARRIED.

LEGISLATIVE MATTERS

COUNCIL INFORMATION UPDATES

G.V.A.C./R.D.N.O. REGULAR MEETINGS

INFORMATION ITEMS

CLOSE

Mayor Akbal Mund closed the meeting at 9:15 am.

CERTIFIED CORRECT:

Mayor:

Corporate Officer:



THE CORPORATION OF THE CITY OF VERNON

INTERNAL M E M O R A N D U M

TO: Will Pearce, Chief Administrative Officer **FILE:** 1830-02
FROM: Aaron Stuart, Manager, Financial Planning & Reporting **DATE:** May 04, 2018
SUBJECT: 2017 Financial Statements and Audit Findings Report

The 2017 Financial Statements and Audit Findings Report have been provided as Attachment 1 and 2 respectfully.

Statement of Financial Position (Statement A)

This statement shows a continuing improvement in the City's net financial asset position. Total Financial Assets have grown while total Liabilities have temporarily increased due to the remaining unspent borrowed funds relating to the Multi-Use Facility expansion. Tangible Capital Assets (TCA) have remained flat showing that our net capital investment for 2017 has approximated amortization. This shows that our capital program has made good progress but still needs to expand in the future.

Statement of Operations (Statement B)

On April 9, 2018, the 2017 Financial Report was provided to Council which included transfers to and from reserves along with debt principal payments. The 2017 surplus in that report is \$771,673. That report differs from the Statement of Operations due to requirements of Public Sector Accounting Standards (PSAS). These requirements are outlined below:

Revenue:

- Omit transfers from reserves
- Include capital funding
- Include developer-contributed assets
- Include MFA actuarial adjustments

Expenses:

- Omit transfers to reserves
- Omit debt principal payments
- Include losses on disposal of capital assets
- Include amortization expense (representing the use of tangible capital assets)

As a result, the reported 2017 surplus based on PSAS standards is \$8,308,000.

RECOMMENDATION:

THAT Council receives and approves the 2017 Audited Financial Statements as presented by representatives of KPMG, LLP, at the May 14, 2018 Committee of the Whole meeting.

Respectfully submitted,

A handwritten signature in blue ink, consisting of several loops and flourishes, positioned below the text "Respectfully submitted,".

Attachments (2)

THE CORPORATION OF THE CITY OF VERNON
Finance Division



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

December 31, 2017

The Corporation of the City of Vernon

December 31, 2017

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THE CORPORATION OF THE
CITY OF VERNON
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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 are 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 their opinion on the City's financial statements.

Chief Administrative Officer

Director of Financial Services

May 14, 2018

Independent Auditors' Report

Independent Auditors' Report

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



December 31, 2017 (in thousands of dollars)		2017	2016
Financial Assets			
Cash and cash equivalents	Note 2	\$ 80,538	\$ 66,739
Portfolio investments	Note 3	5,414	5,401
Accounts receivable	Note 4	18,738	18,042
Municipal Finance Authority deposits	Note 5	2,455	2,444
Land under development	Note 6	4,778	3,156
		<u>111,923</u>	<u>95,782</u>
Liabilities			
Accounts payable and accrued liabilities	Note 7	33,585	23,255
Deferred charges	Note 8	13,167	12,415
Deferred revenue	Note 9	2,147	2,482
Municipal Finance Authority reserves	Note 5	2,455	2,444
Debt	Note 10 & 11	18,681	21,850
Landfill remediation liability	Note 12	104	92
		<u>70,139</u>	<u>62,538</u>
		<u>41,784</u>	<u>33,244</u>
Net Financial Assets			
Non-financial Assets			
Tangible capital assets	Note 13	570,690	570,657
Inventory of supplies		492	497
Prepaid expenses		278	538
		<u>571,460</u>	<u>571,692</u>
Accumulated Surplus	Note 14	\$ 613,244	\$ 604,936

Commitments and contingent liabilities Note 20 & 22

Approved by:

Director of 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, 2017 (in thousands of dollars)		Budget 2017 Note 25	Actual 2017	Actual 2016
Revenue				
Taxation	Note 15	\$ 37,525	\$ 37,333	\$ 35,642
Government transfers	Note 16	9,097	17,357	9,015
Services provided to other governments		3,660	3,495	4,137
Sale of services:				
Sewer fees and charges		9,492	9,453	9,360
Environmental health		2,035	2,173	2,070
Recreation fees		2,305	2,370	2,205
Public transit and parking		2,004	2,008	2,051
Fines and rentals		1,655	1,676	1,661
Licences and permits		1,345	1,856	1,763
Airport		1,007	945	1,058
Other		961	1,015	1,130
Development fees		147	134	139
Fiscal services:				
Penalties, interest earned and actuarial adjustments		1,093	3,041	2,523
Net gain on sales of assets		-	-	594
Natural gas system lease agreements	Note 17	2,030	1,911	1,960
Developer contributions of assets	Note 13	1,586	5,466	2,330
		75,942	90,233	77,638
Expenses				
	Note 19 & 24			
General government and common services		10,133	10,408	9,322
Bylaw compliance and parking control		1,299	1,263	1,265
Protective Services:				
Police		11,653	11,733	10,021
Fire and rescue		5,632	5,583	5,661
Emergency measures		213	592	161
Planning and building inspection		2,717	2,456	2,256
Engineering		2,234	2,973	2,054
Operations Services:				
Road transportation		15,592	15,193	15,794
Sanitary sewer		9,634	9,741	9,038
Solid waste and recycling		1,806	1,801	1,724
Park services		2,060	1,928	2,053
Storm drainage		1,306	1,509	1,290
Airport		1,049	2,278	1,176
Other		600	540	740
Cemetery		331	295	334
Recreation		6,343	13,632	6,110
		72,602	81,925	68,999
Annual surplus		3,340	8,308	8,639
Accumulated surplus, beginning of year		604,936	604,936	596,297
Accumulated surplus, end of year	Note 14	\$ 608,276	\$ 613,244	\$ 604,936

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



Financial Assets

Statement C

	Budget 2017 Note 25	2017	2016
For the year ended December 31, 2017 (in thousands of dollars)			
Annual Surplus	\$ 3,340	\$ 8,308	\$ 8,639
Amortization of tangible capital assets	11,691	10,974	11,781
Net (gain)/loss on sales of assets	-	743	(594)
Proceeds on sale of tangible capital assets	-	44	1,597
Acquisition of tangible capital assets	(14,608)	(8,905)	(8,813)
Acquired tangible capital assets from developers	-	(2,889)	(1,645)
	(2,917)	(33)	2,326
Consumption of supplies inventories	-	773	851
Use of prepaid expenses	-	878	884
Acquisition of supplies inventories	-	(768)	(1,011)
Acquisition of prepaid expenses	-	(618)	(803)
	-	265	(79)
Increase in net financial assets	423	8,540	10,886
Net financial assets, beginning of year	33,244	33,244	22,358
Net financial assets, end of year	\$ 33,667	\$ 41,784	\$ 33,244

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, 2017 (in thousands of dollars)

	2017	2016
Operating Activities		
Annual surplus	\$ 8,308	\$ 8,639
Non-cash items included in annual surplus:		
Amortization of tangible capital assets	10,974	11,781
Net loss on disposal of tangible capital assets	743	-
Net gain on transfer of tangible capital assets	-	(594)
Developer contributions of assets	(2,889)	(1,645)
Increase in landfill remediation liability	13	92
Change in non-cash operating items:		
(Increase) / decrease in accounts receivable	(696)	444
Increase in accounts payable and accrued liabilities	10,330	1,109
Increase in deferred charges	752	2,831
(Decrease) in deferred revenue	(335)	(959)
Actuarial adjustments on debt	(1,369)	(1,233)
(Increase) / decrease in supplies inventories	5	(160)
Decrease in prepaid expenses	260	81
	<u>26,096</u>	<u>20,386</u>
Investing Activities:		
(Increase) in portfolio investments	(13)	(71)
(Increase) in land under development	(1,623)	(7)
	<u>(1,636)</u>	<u>(78)</u>
Financing Activities:		
Principal payments on debt	(1,800)	(1,798)
	<u>(1,800)</u>	<u>(1,798)</u>
Capital Activities:		
Proceeds on sale of tangible capital assets	44	1,597
Acquisition of tangible capital assets	(8,905)	(8,813)
	<u>(8,861)</u>	<u>(7,216)</u>
Increase in cash and cash equivalents	13,799	11,294
Cash and cash equivalents, beginning of year	<u>66,739</u>	<u>55,445</u>
Cash and cash equivalents, end of year	<u>\$ 80,538</u>	<u>\$ 66,739</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
Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies:

The Corporation of the City of Vernon (the "City") is incorporated and operates under the provisions of the Local Government Act and Community Charter of British Columbia. The City provides local government services to residents 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 accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Professional Accountants ("PSAS").

All revenue is recognized on an accrual basis. 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 one year or less at acquisition as cash equivalents.

The Corporation of the City of Vernon
Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies: (continued)

e) 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.

f) Deferred Charges:

Deferred charges are comprised of levied and unused Development Cost Charges and Sidewalk Gifting funds. These funds are recorded as revenue in the year they are used to fund tangible capital asset acquisitions or eligible operating expenses.

g) 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. Deferred revenue amounts are included in Accounts Payable and Accrued Liabilities (note 7).

h) Debt:

Debt principal payments are not charged against current operating revenue pursuant to PSAS. Interest is recorded on an accrual basis. Gross interest paid on debt in 2017 was \$1,108,000, (\$1,142,000 in 2016).

i) Landfill Closure and Post-Closure Liability:

The estimated cost for closure and post-closure care for the Hesperia landfill is based on estimated future expenses in current dollars and charged as an expense in the reporting period that the landfill site's capacity is used. There is significant measurement uncertainty in the estimate for the closure liability as it does not include a cost for obtaining suitable material for the final cover. This material is anticipated to be obtained at no charge as some materials that are discharged at the landfill are suitable to be used for the final cover and are diverted and stored to be used for progressive closure activities.

j) 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.

The Corporation of the City of Vernon
Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies: (continued)

k) 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.

l) 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. 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	35 to 60 years
Vehicles	Straight-line	7 to 29 years
Miscellaneous Equipment	Straight-line	10 to 30 years
Information Technology	Declining balance	40%
Natural Gas System	Straight-line	35 years

The Corporation of the City of Vernon
Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies: (continued)

m) 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.

n) 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.

o) 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 accrued liabilities.

p) 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. 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 25).

q) Comparative Figures:

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

r) Segment Disclosures:

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 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 23).

The Corporation of the City of Vernon
Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

2. Cash and Cash Equivalents:

	<u>2017</u>	<u>2016</u>
Restricted:		
Deferred charges	\$ 13,167	\$ 12,415
Deferred revenue	2,147	2,482
Statutory reserves	3,370	3,040
	<u>18,684</u>	<u>17,937</u>
Unrestricted:	61,854	48,802
	<u>\$ 80,538</u>	<u>\$ 66,739</u>

The City has access to an operating line of credit not exceeding \$2.0 million (2016 - \$2.0 million). Interest is accrued based on Valley First, a Division of First West Credit Union's prime lending rate plus 0.25%. As of December 31, 2017, this line of credit was not being utilized (2016- \$0).

3. Portfolio Investments:

Portfolio investments are comprised of pooled investments in the Municipal Finance Authority ("MFA") Bond Fund. As of December 31, 2017, all such investments represented development cost charges. Portfolio investments are recorded at their cost and written down to reflect losses in value that are other than temporary.

4. Accounts Receivable:

	<u>2017</u>	<u>2016</u>
Property taxes	\$ 4,259	\$ 4,424
Utility billings	7,112	6,782
Other governments	4,342	3,731
Trade and other receivables	3,150	3,230
	<u>18,863</u>	<u>18,167</u>
Allowance for doubtful trade accounts receivable	(125)	(125)
	<u>\$ 18,738</u>	<u>\$ 18,042</u>

The Corporation of the City of Vernon
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Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

5. Municipal Finance Authority – Deposits and Reserves:

The City issues most of its debt through the MFA. As a condition of these borrowings, a portion of the debenture proceeds are withheld by the MFA 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 MFA. (see note 22(b)). The details of the cash deposits withheld from debenture proceeds and demand notes at year end are as follows:

	Demand Notes	Cash Deposits	2017	2016
MFA deposits and reserves - general	\$ 1,087	\$ 511	\$ 1,598	\$ 1,587
MFA deposits and reserves - sewer	529	328	857	857
	<u>\$ 1,616</u>	<u>\$ 839</u>	<u>\$ 2,455</u>	<u>\$ 2,444</u>

6. Land Under Development:

In 2008, development activity began for both Hesperia Development Corporation and CBW Development Corporation. 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 \$4,778,000 (2016 - \$3,156,000) 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.

7. Accounts Payable and Accrued Liabilities:

	2017	2016
Trade accounts payable and other accrued liabilities	\$ 14,660	\$ 11,359
Multi-Use Facility expansion unspent deposit	6,060	-
Salaries, wages and related costs	4,669	4,891
	<u>25,389</u>	<u>16,250</u>
Deferred revenue		
Prepaid property taxes	3,696	3,548
Deposits and holdbacks	4,401	3,378
Prepaid fees and charges	99	79
	<u>8,196</u>	<u>7,005</u>
	<u>\$ 33,585</u>	<u>\$ 23,255</u>

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(tabular amounts in thousands of dollars)

8. Deferred Charges:

Deferred Charges include Sidewalk Gifting Funds and Development Cost Charges ("DCC's"). Sidewalk Gifting Funds are charged to developers through a works contribution agreement requiring the City to use funds for future sidewalks 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.

	<u>2017</u>	<u>2016</u>
Deferred charges		
DCC - roads	\$ 5,098	\$ 4,817
DCC - storm	1,776	1,663
DCC - sewer	4,306	3,976
Sidewalk gifting funds	1,987	1,959
	<u>13,167</u>	<u>12,415</u>
Deferred charges, beginning of year	\$ 12,415	\$ 9,584
DCC's levied during the year	2,610	3,269
Sidewalk gifting funds received	208	123
Investment income	84	113
Contributions available	<u>15,317</u>	<u>13,089</u>
Capital transfers	(1,731)	(410)
Operating transfers	(419)	(264)
Deferred charges, end of year	<u>\$ 13,167</u>	<u>\$ 12,415</u>

9. Deferred Revenue:

	<u>2017</u>	<u>2016</u>
Recreation Facility Major Maintenance	\$ 1,746	\$ 1,727
Recreation Facility Replacement (Civic)	301	301
Recreation Facility Operating	100	454
	<u>\$ 2,147</u>	<u>\$ 2,482</u>

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10. Debt:

	Purpose of Bylaw	Interest Rate %	Year of Maturity	Gross Debt	Sinking Fund Asset	2017 Net Debt	2016 Net Debt
<u>General Purposes:</u>							
4717	Fortis BC Gas Lease*	2.10%	2019	\$ 24,500	\$ 20,459	\$ 4,041	\$ 5,918
4718	Fortis BC Gas Lease *	9.85%	2037	1,185	85	1,100	1,118
4624	Downtown Revitalization	1.80%	2020	388	292	96	126
4625	Downtown Revitalization	1.80%	2020	128	96	32	42
4728	Downtown Revitalization	1.80%	2020	211	159	52	68
4739	Various	1.80%	2020	4,675	3,514	1,161	1,523
				<u>31,087</u>	<u>24,605</u>	<u>6,482</u>	<u>8,795</u>
<u>Sewer Purposes:</u>							
1214BJ	Blue Jay Specified Area	4.82%	2017	100	100	-	8
4889	Reclaimed Water Line	1.80%	2020	1,061	797	264	345
4680	Treatment Plant Phase I	1.75%	2027	5,000	2,260	2,740	2,947
4680	Treatment Plant Phase II	2.40%	2028	2,038	837	1,201	1,282
4791	Water Reclamation Plant	1.80%	2030	12,556	4,562	7,994	8,473
				<u>20,755</u>	<u>8,556</u>	<u>12,199</u>	<u>13,055</u>
				<u>\$ 51,842</u>	<u>\$ 33,161</u>	<u>\$ 18,681</u>	<u>\$ 21,850</u>

* See Note 17 for capital lease liabilities.

11. Future Payments and Sinking Fund Additions:

	General	Sewer	Total
2018	\$ 1,258	\$ 541	\$ 1,799
2019	1,260	541	1,801
2020	314	541	855
2021	26	484	510
2022	28	484	512
2023 & thereafter	980	3,469	4,449
	<u>3,866</u>	<u>6,060</u>	<u>9,926</u>
Actuarial adjustments	2,616	6,139	8,755
	<u>\$ 6,482</u>	<u>\$ 12,199</u>	<u>\$ 18,681</u>

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12. Landfill Remediation Liability

The City operates its 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 liability for closure and post-closure care is recognized based on an 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 liability 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 1.5% (2016 – 1.5%) and then discounted to the financial reporting date at 2.49% (2016 – 2.49%), which is the City's cost of capital on debt outstanding as of the same date.

The liability for closure and post-closure care at December 31, 2017 is \$104,000 (2016 - \$91,000), the estimated total expenditures for closure and post-closure care are \$1,151,000 (2016 - \$1,139,000) which leaves \$1,047,000 (2016 - \$1,048,000) remaining to be recognized. The landfill is estimated to have remaining capacity of 873,208 cubic meters (91%) and remaining life of 53 years.

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, 2017 the balance of this reserve is \$292,000 (2016 - \$158,000).

When the landfill closes at the end of its useful life it is estimated that post-closure care will be required for 25 years. The reported liability is based on estimates and assumptions with respect to anticipated events over the expected remaining service life of the landfill. Management periodically performs an assessment of the underlying assumptions and utilizes the expertise of a qualified firm of engineers external to the City in forming the estimate.

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Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

13. Tangible Capital Assets:

Cost	Additions/			
	December 31, 2016	Reclassification	Disposals	December 31, 2017
Land	\$ 262,585	\$ 990	\$ -	\$ 263,575
Buildings	66,709	(306)	836	65,567
Vehicles	12,739	930	202	13,467
Miscellaneous equipment	2,632	470	-	3,102
Information technology	2,659	379	294	2,744
Transportation infrastructure	217,131	7,626	69	224,688
Storm drain infrastructure	80,083	(460)	-	79,623
Sanitary sewer infrastructure	99,739	2,165	37	101,867
Other leasehold equipment	25,295	-	-	25,295
	<u>\$ 769,572</u>	<u>\$ 11,794</u>	<u>\$ 1,438</u>	<u>\$ 779,928</u>
Accumulated Amortization	December 31, 2016	Amortization	Disposals	December 31, 2017
Buildings	\$ 25,377	\$ 1,684	\$ 175	\$ 26,886
Vehicles	7,392	635	174	7,853
Miscellaneous equipment	1,093	96	-	1,189
Information technology	2,197	184	230	2,151
Transportation infrastructure	102,835	5,269	58	108,046
Storm drainage infrastructure	22,078	1,035	-	23,113
Sanitary sewer infrastructure	27,825	1,348	14	29,159
Other leasehold equipment	10,118	723	-	10,841
	<u>\$ 198,915</u>	<u>\$ 10,974</u>	<u>\$ 651</u>	<u>\$ 209,238</u>
Net Book Value	December 31, 2016			December 31, 2017
Land	\$ 262,585			\$ 263,575
Buildings	41,332			38,681
Vehicles	5,347			5,614
Miscellaneous equipment	1,539			1,913
Information technology	462			593
Transportation infrastructure	114,296			116,642
Storm drain infrastructure	58,005			56,510
Sanitary sewer infrastructure	71,914			72,708
Other leasehold equipment	15,177			14,454
	<u>\$ 570,657</u>			<u>\$ 570,690</u>

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Year Ended December 31, 2017
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13. Tangible Capital Assets: (continued)

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 \$13,551,000 (2016 - \$10,976,000) has not been amortized. Amortization of these assets will commence the year following 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 \$2,889,000 (2016 - \$1,645,000) comprised of transportation infrastructure in the amount of \$1,436,000 (2016 - \$1,252,000), storm drain infrastructure in the amount of \$808,000 (2016 - \$236,000) and sanitary sewer infrastructure in the amount of \$645,000 (2016 - \$157,000).

c) Tangible Capital Assets Disclosed 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, 2017 and 2016.

f) Capital Leases

Included in tangible capital assets are assets of \$25,295,000 (2016 - \$25,295,000) and accumulated amortization of \$10,841,000 (2016 - \$10,118,000). The City recorded amortization expense of \$723,000 (2016 - \$723,000) related to these leased assets.

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Year Ended December 31, 2017
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14. Accumulated Surplus:

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

	<u>2017</u>	<u>2016</u>
Accumulated surplus per Statement of Financial Position	\$ 613,244	\$ 604,936
Less:		
Tangible capital assets	(570,690)	(570,657)
Inventory of supplies	(492)	(497)
Prepaid expenses	(278)	(538)
Debt	18,681	21,850
	<u>\$ 60,465</u>	<u>\$ 55,094</u>
Non-Statutory Reserves		
Budget Carryover Reserve General	\$ 2,192	\$ 1,508
Budget Carryover Reserve Sewer	49	49
Capital Reserves General	13,213	12,154
Capital Reserves Sewer	13,947	12,733
Operating Reserves General	213	170
Tax Equalization Reserves General	6,201	6,350
Tax Equalization Reserves Sewer	8,697	8,030
Special Purpose Reserves	6,154	7,320
Fortis BC Lease Legacy Reserve	3,418	3,097
	<u>54,084</u>	<u>51,411</u>
Statutory Reserve Funds		
Highway Access to Water Reserve	619	613
Land Sale Reserve	841	1,409
Local Improvement Reserve	850	841
Parkland Reserve Equity	221	177
Recreation Facility Operating Reserve	839	-
	<u>3,370</u>	<u>3,040</u>
Total Restricted Funds	<u>57,454</u>	<u>54,451</u>
Unappropriated Surplus	<u>\$ 3,011</u>	<u>\$ 643</u>

The Corporation of the City of Vernon
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Year Ended December 31, 2017
(tabular amounts in thousands of dollars)

15. Property Tax Revenue:

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

	<u>2017</u>	<u>2016</u>
Specific assessments:		
Residential	\$ 23,085	\$ 21,817
Business	11,599	11,299
Utilities	272	278
Light industrial	523	492
Non-profit	132	132
Farm land	3	3
	<u>35,614</u>	<u>34,021</u>
Payments in lieu of taxes	1,235	1,283
Specified area taxes and other	484	338
	<u>\$ 37,333</u>	<u>\$ 35,642</u>

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Year Ended December 31, 2017
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16. Transfers from Other Governments

	2017	2016
Federal government transfers		
Transportation infrastructure	\$ 1,798	\$ 1,674
Recreational initiatives	80	-
	<u>1,878</u>	<u>1,674</u>
Provincial government transfers		
Transit subsidy	2,095	2,285
Casino revenue sharing	1,960	1,956
Transportation infrastructure	824	59
Hotel tax	738	693
Sanitary infrastructure	666	-
Traffic fine revenue sharing	486	523
Emergency Management BC	419	6
Keep of prisoners	272	276
Insurance Corporation of BC	149	70
Carbon tax rebate	82	79
Certificate of Recognition safety program	63	61
Tourism BC	25	32
Fire Smart program	14	-
Municipal Insurance Agency	13	26
Other transfers	10	-
BC Hydro initiatives	1	13
Emergency planning	-	15
	<u>7,817</u>	<u>6,094</u>
Other government transfers		
Recreational initiatives	7,270	1,088
Regional initiatives	293	43
Okanagan Basin Water Board	93	102
Community development initiatives	6	14
	<u>7,662</u>	<u>1,247</u>
Total transfers from other governments	<u>\$ 17,357</u>	<u>\$ 9,015</u>

The Corporation of the City of Vernon
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Year Ended December 31, 2017
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17. Natural Gas System Lease Agreements:

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

a) Leased tangible capital assets:

Under the terms of the agreement, the City has entered into a 35-year lease of tangible capital assets 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 (Debt Bylaw # 4718, note 10). The remaining obligation, which is included in debt, will be paid with annual lease payments of \$127,884 including interest based on Fortis BC-approved pre-tax weighted average cost of capital of 9.85%.

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 Fortis BC the operation of the gas distribution system. Under the operating lease, Fortis BC 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 2017 was \$1,911,000, (\$1,960,000 in 2016). At the end of the 17-year term, Fortis BC has the option of making a termination payment equal to the unamortized portion of the City's \$23,750,000 prepayment under the lease of tangible capital assets, 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.

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

a) Water Agreement

The City has entered into a 5-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. This agreement replaces a 10-year agreement expiring January 31, 2013. Under this agreement, the City is responsible for the day-to-day operation of the water system within the City 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, 2018. The City has entered into a new 5-year agreement for February 1, 2018 to January 31, 2023.

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, 2014. The agreement also involves the transfer of park land between both parties so that local parks within the City are owned and operated by the City and designated sub-regional parks are owned and operated by the Regional District.

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18. Long term Agreements with the Regional District of North Okanagan: (continued)

Under this agreement each jurisdiction levies and contributes Parks development cost charges according to the Regional District development cost charges bylaw. Development cost charge amounts are then allocated on the basis of contributions for use in those jurisdictions. The amount allocated to the City as of December 31, 2017 was \$3,410,000 (2016 - \$2,918,000).

The City has entered into a 3-year agreement with the Regional District to assume responsibility for the management and operation of sub-regional parks commencing January 1, 2014 and ending December 31, 2016. Subsequently a one-year agreement was agreed upon expiring December 31, 2017. As at December 31, 2014 the City transferred to the Regional District park land with fair market value approximating \$23,941,000 (historical cost \$1,861,000) and the Regional District transferred park land to the City with fair market value approximating \$14,855,000.

c) Recreation Agreements

The City entered into a 5-year agreement with the Regional District to assume responsibility for the management and operation of local recreational facilities commencing January 1, 2014 and ending December 31, 2018. The agreement also involves the transfer of recreation facilities and related land from the Regional District to the City to re-align responsibility for the facilities and programming to the City. As at December 31, 2014 the Regional District transferred to the City recreation facilities and land with fair market value approximating \$1,487,000. Facilities and land owned by the Regional District with fair market value approximating \$34,968,000 plus facilities currently being constructed on these lands with construction costs to date approximating \$7,100,000 have not yet been transferred to the City as of December 31, 2017.

19. Expenses by Object:

	2017	2016
Salaries and wages	\$ 26,609	\$ 25,901
Contracted services	21,915	13,692
RCMP contract	8,921	7,113
Amortization of tangible assets	10,974	11,781
Supplies, materials and other	5,363	3,534
Bank charges and net loss on capital assets	2,067	1,255
Utilities, telephone and insurance	4,250	3,993
Equipment charges	1,826	1,730
	\$ 81,925	\$ 68,999

20. Commitments:

The City has entered into a lease agreement for a transit maintenance facility with BC Transit for 40 years with two 10-year renewal options. The 40-year lease was prepaid in full in the amount of \$1,310,000 upon occupancy by BC Transit of the site in November 2011.

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21. 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.

	2017	2016
Trust Fund Continuity:		
Balance, beginning of year	\$ 783	\$ 757
Interest earned	8	13
Proceeds from plot sales and memorial settings	30	26
Transfers to general fund for maintenance	(8)	(13)
Balance, end of year	\$ 813	\$ 783

22. 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) MFA 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 BC. 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.

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22. Contingent Liabilities: (continued)

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 administering the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2016, the Plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 38,000 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 actuarial valuation for the Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The City paid \$2,137,000 (2016 - \$2,076,000) for employer contributions while employees contributed \$1,812,000 (2016 - \$1,765,000) to the Plan in fiscal 2017.

The next valuation will be December 31, 2018, with results available in 2019.

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) Letter 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, 2017, no drawing on the Letter of Credit has occurred.

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23. Segmented Information:

Segmented information has been grouped into related department functions or service areas for segment reporting purposes provided in note 24 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, City Clerk's office, 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.
- The GIS department catalogues the City's infrastructure geographically for use by the City and its citizens.
- Civic building maintenance is responsible for maintaining all buildings owned by the City.
- Bylaw compliance and parking control is responsible for administering 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 cannot be attributed directly to other segments including taxation, grants in lieu, interest revenue and property rental revenue.

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23. Segmented Information: (continued)

b) Protective Services:

This segment is comprised of police services, fire rescue and emergency management 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 stoppers, block watch and safety patrols.
- Fire and rescue services provide fire response, investigation and prevention services within the City's fire department.
- Emergency management services is responsible for emergency planning within the community and is engaged when the City is affected by an emergency situation.

c) Planning and Engineering:

This segment is comprised of community development, planning, building inspections 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 Inspections is responsible for issuing permits for any developments in the City including building permits, rezoning and development permits.
- 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 Operations.

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23. Segmented Information: (continued)

d) Operations:

This segment is responsible for the 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.
- Solid waste and recycling services are contracted with the Regional District of North Okanagan.
- 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 the Regional District water services and parks services.

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.

The Corporation of the City of Vernon
Notes to the Consolidated Financial Statements



Year Ended December 31, 2017
 (tabular amounts in thousands of dollars)

24. Segmented Disclosure:

	General Government	Protective Services	Planning & Engineering	Recreation	Operations Services	Sanitary Sewer	2017	2016
Revenue								
Taxation	\$ 37,077	\$ -	\$ -	\$ -	\$ -	\$ 256	\$ 37,333	\$ 35,642
Services to other governments	526	417	114	1,084	816	538	3,495	4,137
Government transfers	4,563	1,202	31	7,393	3,242	926	17,357	9,015
Sale of services	1,989	228	1,999	3,442	4,146	9,464	21,268	21,034
Fiscal services	2,614	-	-	111	-	316	3,041	3,117
Transfers of assets from developers	282	-	165	-	4,134	885	5,466	2,330
Natural gas system agreement	2,273	-	-	-	-	-	2,273	2,363
	49,324	1,847	2,309	12,030	12,338	12,385	90,233	77,638
Expenses								
Salaries and wages	6,472	7,448	3,619	3,817	3,366	1,887	26,609	25,901
Contracted services	1,911	367	1,295	7,905	9,140	1,297	21,915	13,692
RCMP contract	-	8,921	-	-	-	-	8,921	7,113
Amortization of tangible assets	1,817	186	-	11	6,370	2,590	10,974	11,781
Supplies, materials and other	(966)	587	419	736	2,388	2,199	5,363	3,534
Bank fees and net loss on assets	1,610	-	-	36	12	409	2,067	1,255
Utilities, telephone and insurance	730	203	13	1,064	1,170	1,070	4,250	3,993
Equipment charges	97	196	83	63	1,098	289	1,826	1,730
	11,671	17,908	5,429	13,632	23,544	9,741	81,925	68,999
Excess (deficiency) revenue over expenses	\$ 37,653	\$ (16,061)	\$ (3,120)	\$ (1,602)	\$ (11,206)	\$ 2,644	\$ 8,308	\$ 8,639

The Corporation of the City of Vernon

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

(tabular amounts in thousands of dollars)

25. Budget Data:

The budget data presented in these consolidated financial statements is based upon the 2017 consolidated financial plan approved by Council on January 9, 2017. The schedule below reconciles the approved budget in Bylaw #5613 to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenue:	
Operating budget	\$ 106,484
Capital budget	<u>12,023</u>
	118,507
Less:	
Transfers from other funds and reserves	10,536
Collections for other governments	<u>32,029</u>
	<u>(42,565)</u>
Total Revenue	75,942
Expenses:	
Operating budget	115,558
Capital budget	<u>14,608</u>
	130,166
Less:	
Capital expenses	14,608
Transfers to other funds and reserves	9,147
Debt principal payments	1,780
Collections for other governments	<u>32,029</u>
	<u>(57,564)</u>
Total Expenses	72,602
Annual Surplus	<u>\$ 3,340</u>



The Corporation of the City of Vernon

**Audit Findings Report
For the year ended December 31, 2017**

KPMG LLP

May 8, 2018

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours.**

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you in your review of the results of our audit, and your approval of the consolidated financial statements of the Corporation of the City of Vernon (the "City") as at and for year ended December 31, 2017.

We appreciate the assistance of management and staff in conducting our audit. This Audit Findings Report builds on the Audit Planing Letter we provided on March 15, 2018. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings with you.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Letter previously provided to you.

Audit risks and results

Certain risks, by their nature, require special audit consideration. By focusing on these risks, we established an overall audit strategy and effectively targeted our audit procedures. We are satisfied that our audit work has appropriately dealt with the risks. We did not identify any significant risks, but identified other risks, including:

- Cash, short-term investments, and debt
- Revenue and deferred revenue
- Tangible capital assets
- Purchases
- Personnel expenses

* This Audit Findings Report should not be used for any other purpose or by anyone other than the management and Mayor and Council of the City. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. As communicated in our Audit Planning Letter, we have determined a materiality of \$1,200,000 (2016 - \$1,100,000).

Adjustments and differences

The impact of the differences is as follows:

Annual surplus	(in \$'000s)
As currently presented	\$8,308
Uncorrected differences	\$478
As a % of the balance	5.75%

Assets	(in \$'000s)
As currently presented	\$683,383
Uncorrected differences	(\$515)
As a % of the balance	0.08%

See page 11 for details

Executive summary

Finalizing the audit

As of May 7, 2018, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- obtaining a signed representation letter;
- completing our discussions with the Finance and Administration Committee;
- receipt of legal confirmations; and
- obtaining evidence of the Council's approval of the financial statements.

Please refer to the Appendices for our draft auditor's report. We will update you (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

In accordance with professional standards, we are required to communicate to the Finance and Administration Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in internal control over financial reporting ("ICFR").

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR, however we did identify some performance improvement opportunities, noted further into this report.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

The critical areas of estimates relate to: tangible capital assets, landfill remediation liabilities and payroll related accruals.

Significant accounting policies and practices

Significant accounting policies are disclosed in Note 1 to the financial statements. There have been no changes to significant accounting policies and practices to bring to your attention.

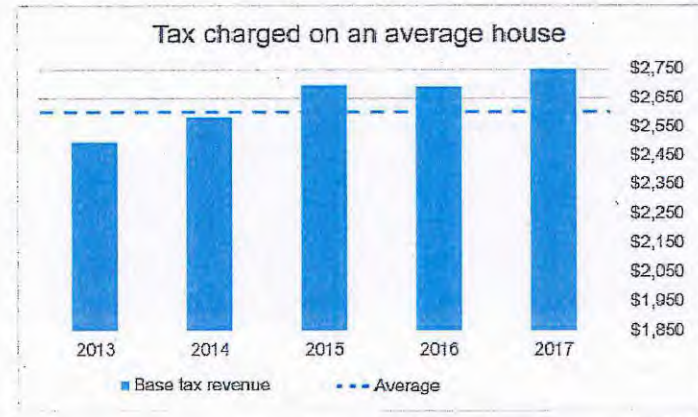
Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with PSAS. Misstatements, including omissions, if any, related to disclosure or presentation items are noted further into this report. Additionally, we have no concerns at this time regarding future implementation of new applicable standard.

Selected financial information

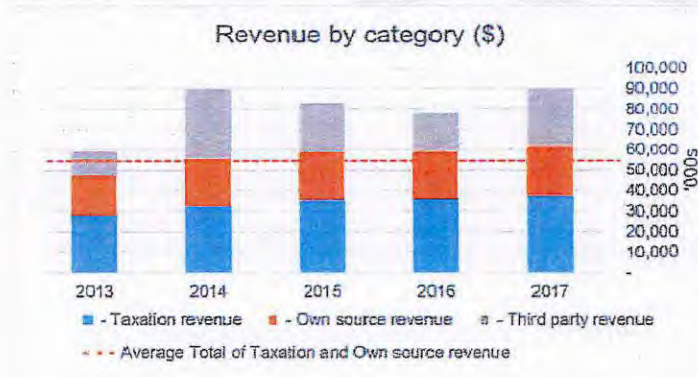
As part of the audit, there are certain key ratios and trends that we look at to assess audit risk and likelihood of error and/or misstatement. We share these ratios with Council and Management and welcome any questions related to our interpretation of trends.

Note: the following financial information is taken from the annual audited financial statements prepared in accordance with PSAS. The accounting framework used in these financial statements differs significantly from the framework used in the rate-setting formula (financial plan) in that the rate-setting formula is based on the cash-basis and includes transfers from reserves and other prior period unspent funds and planned capital acquisitions rather than amortization of capital assets.



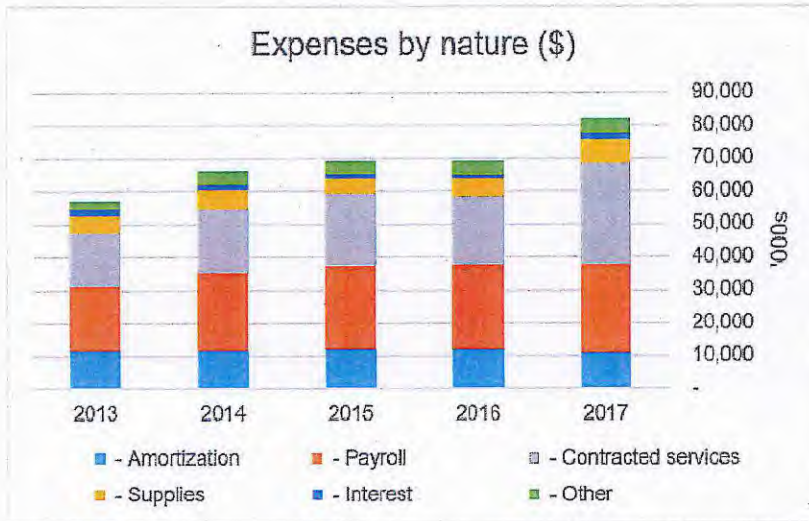
The property taxes charged on an average house have increased by approximately 2.6% from 2016, and the average increase year-over-year between 2013 and 2017 is relatively consistent at approximately 2.5% per year.

Total property taxes collected by the City increased at an average of 7.7% per year between 2013 and 2017: although property tax assessments have increased at only 3.9% over the same period. The increased tax revenue in total is primarily a result of increased services (parks and recreation) as well as the infrastructure (general and sewer) replacement charges on projects completed in the current year. Net tax revenue earned in 2017 after infrastructure replacement charges is also up from prior year due to increases in property assessments offset by a decrease to the municipal rate in several areas resulting in an overall decrease in the weighted average property tax rates charged.



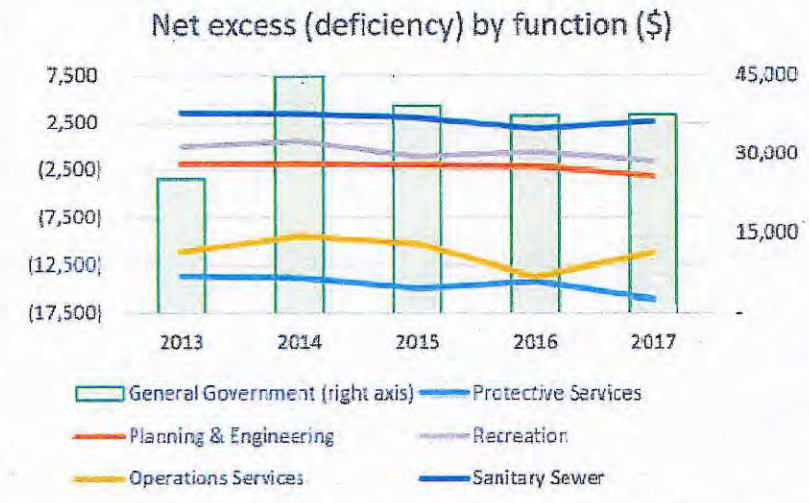
Taxation represents 41.4% (2016 – 45.9%) of total revenues. Own-source revenues from sale of services have represented on average approximately 28.8% of total revenues between 2013 to 2017, but have remained fairly consistent in total earned since 2015.

Third-party revenues consist primarily of government transfers, services provided to other governments, natural gas agreement and contributions from developers. Accordingly, third-party revenues can have large variances from year to year. This revenue source accounts for almost a third of total revenues in 2017, for which the large increase can be attributed to 2017 construction costs for the arena expansion being done for RDNO and grant revenue being recognized on completed portions of capital projects.



Total annual expenses have increased at approximately 9.4% per year since 2013, with an 18.7% increase from 2016 to 2017. Excluding the \$7.1m of construction costs associated with the arena expansion, the year-over-year increase of total annual expenses is 8.4%.

Contracted Services (including the arena expansion), Supplies and Payroll represent the largest average increases at an approximately 17.7%, 9.1% and 7.3% per year, respectively since 2013. Partially offsetting those increases are decreased expenses of 1.1% and 0.6% in interest and bank charges, and amortization respectively since 2013. Interest and bank charges are down due to the decrease over time in the debt balance. Amortization is down due to the recent amounts and types of reinvestment in Tangible Capital Assets.



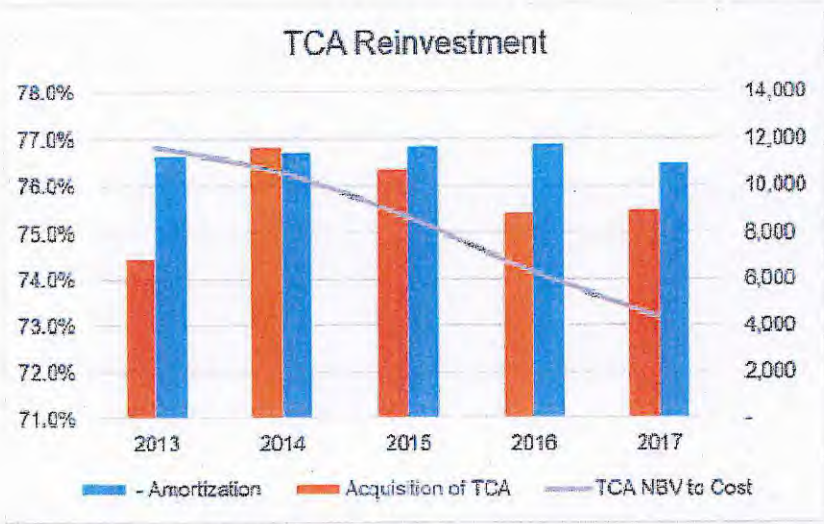
As disclosed in Notes 23 and 24 in the financial statements, the City categorizes revenue and expenses across 6 functions/service areas.

The City's largest functions for revenue by dollar value of are: General Government (54.7%); Operations Services (13.7%); Sanitary Sewer (13.7%); and Recreation (13.3%).

The largest functions for expenses by dollar value are: Operations Services (28.7%); Protective Services (21.9%); Recreation (16.6%); and General Government (14.2%)

For the most part, the large excess in General Government is attributed to the fact that 99.3% of taxation revenue is included here. The excess in General Government is then used to fund the activities in most of the other functions- all functions except Sanitary Sewer have deficiencies year-over-year.

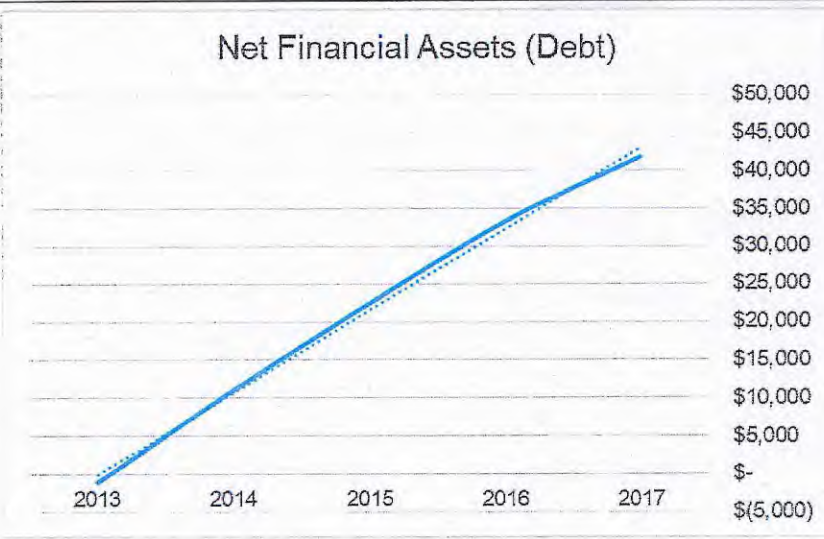
The General Government function net excess per year has grown by \$12.3m since 2013, but has remained relatively flat since 2015. Protective Services has experienced the most significant delivery cost increases with a yearly deficiency that has increased by \$2.3m since 2013 (an average rate of 13.9%)..



Consistent with most Canadian municipalities, asset and infrastructure reinvestment planning should continue to be a priority for the City: the average tangible capital asset ("TCA") net book value to cost ratio has steadily declined since 2013, from 76.8% to 73.2%, indicating steadily aging infrastructure. Acquisitions have averaged \$9.4m each year over the last five years, which is approximately 82.4% of the annual amortization over the same period.

We would expect, on average, that the acquisition of TCAs equal the annual amortization expense. At the current asset replacement rate, the infrastructure deficit will continue to grow.

As infrastructure continues to age, the City will become increasingly reliant on future revenue streams to fund asset replacements, likely further putting a pressure on the tax base (note: see resources available below).



Net financial assets is a measurement of the available financial resources that the City has to invest in future expenditures.

The City moved from a net debt position to a net asset position during 2014. Since that time, net financial assets have increased by approximately 55.6% to \$41.8m, approximately \$27.2m of which is in capital reserves. The net financial assets represent an accumulation of financial assets / unspent revenues.

The accumulation of reserves is consistent with management's plans to set aside funds for future infrastructure replacements.

Other matters

We have highlighted below other significant matters that we would like to bring to your attention for discussion at the upcoming finance committee meeting:

Matter	KPMG comments
<p>IAFF Agreement</p>	<p>On June 19, 2015 a new agreement was signed between the City and the International Association of Firefighters – Vernon Local 1517 (“IAFF”), effective retroactively to January 1, 2013 and expiring December 31, 2015. This agreement has now expired and a new agreement has not yet been reached.</p> <p>The expired agreement results in uncertainty regarding future payroll expenses and potential retroactive pay owed when a new agreement is reached. Given the uncertainty around timing and amount, we concur with management that no amount be accrued or disclosed in the financial statements at this time.</p>
<p>Liability for contaminated sites</p>	<p>Effective January 1, 2015 PSAS required that a liability be recognized for contaminated sites not in productive use, when the government is responsible for, or accepts responsibility for, the contamination, and the contamination exceeds existing environmental standards.</p> <p>KPMG provided management with a readiness assessment to assist in identifying contaminated sites. We have updated enquiries with management in 2017. We continue to concur with management’s assessment that it is unlikely at this time that the City has a material contaminated site that would require an accrual for clean-up costs.</p> <p>No additional disclosures or adjustments were identified as a result of this new standard.</p>
<p>Asset Retirement Obligations</p>	<p>As noted in Appendix 8, there are proposed new standards for asset retirement obligations which may impact the City’s financial statements.</p>
<p>Hesperia Landfill Remediation Liability</p>	<p>In 2016, management identified a non-public landfill site at Hesperia that a remediation liability had not been disclosed or accrued in the financial statements. Management obtained details from Operations and noted that an Operational Certificate had been issued by the Ministry of Environment and an Operating and Closure Plan developed. The information collected in 2016 is still considered to be relevant and applies to current year calculations relating to the closure and post-closure liability.</p> <p>KPMG reviewed the current year calculations provided by management noting no discrepancies from expectations. We concur with management’s estimate and disclosure in the financial statements. Details are disclosed in note 12 to the financial statements.</p>

Matter	KPMG comments
<p>Capitalization thresholds and amortization</p>	<p>The City has capitalization thresholds for capital assets ranging from \$nil to \$100,000 depending on the type of asset. The City amortizes capital assets in the first full year after the asset has been put into use. Capitalization thresholds and starting dates for amortization are used for efficiency purposes.</p> <p>We brought this matter to Council's attention previously. As noted above, capitalization thresholds and starting dates for amortization are used by the City for administrative efficiency. Accounting standards define a capital asset as a non-financial asset to be used in the production or supply of services that has an economic life extending beyond one year, to be used on a continuing basis and not for sale in the ordinary course of business. The capitalization threshold amount noted in the current year was below our misstatement posting threshold.</p> <p>Current accounting standards require that amortization be recorded from the moment that an asset starts to be used by an entity. We note that management continues to expense certain items for administrative efficiency. Due to the timing of when amortization begins (as noted above), the understatement of amortization for the year has been estimated at \$207k (2016 - \$241k). This understatement reflects a timing difference that will impact results from operations in future years.</p> <p>We continue to recommend that management review the current capitalization thresholds and the timing of when amortization should begin. Additionally, see below regarding asset capitalization policies.</p>
<p>Asset capitalization policies</p>	<p>During fiscal 2013, the City changed certain capitalization policies and adopted new capitalization policies. To date, capitalization policies have not been formally reviewed and approved.</p> <p>We brought this matter to Council's attention previously. We recommend that management continue to review the estimates of useful life for all capital asset categories on an annual basis and make adjustments for significant changes, if any. Further that management consider adopting the useful lives as calculated by the Engineering group rather than arbitrary lives based on comparable jurisdictions. We also recommend that the capitalization policy be formally approved by those with the authority to approve operational guidelines.</p> <p>We identified a misstatement related to the useful life of asphalt overlays, which was initially identified in 2014. The understatement of amortization for the year has been estimated at \$133k (2016 - \$123k).</p>
<p>Engineering Department information regarding work-in-progress</p>	<p>All work done related to ongoing projects during the year is recorded to work-in-progress, a capital account, and then subsequently reallocated to tangible capital assets upon the project's completion. This is appropriate treatment as it separates those assets subject to amortization, as well as ensures that project costs that are capital in nature are not being expensed on the statement of operations.</p> <p>It was discovered during fieldwork this year that due to information provided by the Engineering Department in 2016 and prior, expenditures that were classified as work-in-progress were on land transferred from the City to RDNO in 2014. As a result, the total amount was reallocated from work-in-progress to the statement of operations, causing the current year expenses to be overstated by \$224k.</p>

Matter	KPMG comments
<p>Regional District of North Okanagan ("RDNO") accounts receivable balances</p>	<p>In 2016, the City has a significant outstanding receivable balance with RDNO for which an audit misstatement was recorded for potential uncollectible balances. We had sent an accounts receivable confirmation to management at RDNO to confirm that the amount recorded as receivable by the City agreed with their records to which RDNO disagreed with certain charges for the Transit system and certain administration fees charged on Greater Vernon Water capital projects.</p> <p>Consistent with the prior year, as part of the year-end field work, procedures to gain comfort over existence and valuation of accounts receivable were performed. It was noted that the delinquent accounts from prior years had been paid, or provisions for agreed upon amounts had been recorded to offset those receivable balances. KPMG also noted that all significant outstanding and current receivables from RDNO at December 31, 2017 had been subsequently paid in 2018.</p> <p>KPMG noted that, along with the settlement of the outstanding account, an additional adjustment was made for certain transit revenues for which the City had recorded in prior years which RDNO was entitled to. These amounts totalled approximately \$112,000 and were charged as reductions to 2017 revenues. As these amounts related to periods prior to 2017 and the collectability of which was considered doubtful by KPMG, we feel that the current year surplus is understated and have included an audit difference (see page 12).</p>
<p>Sick Time Accrual</p>	<p>The City's liabilities includes an accrual of approximately \$3.1m for sick time which has been earned including expected payouts. About \$1.7m of the accrual relates to 63 members of the management group.</p> <p>As part of the year-end field work, procedures were performed over management's estimate and the assumptions in this calculation. We noted that management are entitled to 100% of the sick time to be paid out if they reach age 55 and the City's estimate assumes that all staff within 12 years of age 55 will either utilize all of their sick time or be paid out at 100% (the payout being 33% if a person leaves before age 55).</p> <p>We consider management's estimate to be reasonable but conservative and have prepared our own judgmental estimate which assumes that approximately 5 of 23 management staff between the ages of 43-53 will leave the City before age 55 and therefore will only be entitled to 33% of their total earned sick leave. In our view, the accrual for this employee category is overstated by \$150,000 and, accordingly, have included an audit difference with respect to this liability (see page 12).</p> <p>We recommend that management updates the assumptions in the calculation based on additional information since the original establishment of the estimate.</p>

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

Corrected adjustments consisted of approximately \$7.1 million to capital assets and recreation expenses regarding the multi-use facility expansion project at Kal Tire Place, on which the City is managing the construction on behalf of RDNO.

Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

However, we would like to take the opportunity to discuss with you the basis for concluding that differences are not material to the financial statements, including quantitative and qualitative considerations.

Adjustments and differences

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences — individually and in the aggregate—are, in their judgment, not material to the financial statements.

As at and year ended December 31, 2017	Annual surplus effect	Financial position		
		Assets (Decrease) Increase	Liabilities (Decrease) Increase	Surplus (Decrease) Increase
Description of differences greater than \$60,000 individually	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase
To record effect of amortization taken from the date of use (2016 - \$241)	(207)	(1,029)	-	(822)
To record under-statement of amortization on asphalt overlays (2016 - \$123)	(133)	(416)	-	(283)
To capitalize equipment expenses below internal thresholds	-	930	-	930
To adjust write-off related to RDNO receivables dispute that should have been booked in prior years	112	-	-	(112)
To record current impact of RCMP contract	332	-	-	(332)
To record impact of prior work-in-progress additions	224	-	-	(224)
To record judgmental difference in sick time accrual for management/exempt staff	150	-	(150)	-
Total differences	478	(515)	(150)	(843)

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

Performance improvement observations

During the course of our audit, we identified a number of performance improvement observations that we believe may be of interest.

These observations are based on, among other things, our understanding of the affairs and processes of the Corporation of the City of Vernon, as well as our understanding of many other entities in the same or other industries.

Item	Observation & Recommendations
<p>Timing of year-end close process</p>	<p><u>Carried over from previous years</u></p> <p>The year-end close process for the City's consolidated financial statements and supplementary notes included the draft copies of statements, associated reconciliations, additional adjustments, and supporting working papers has historically taken a considerable amount of time.</p> <p><u>Current year update</u></p> <p>We noted some late entries made by the City after KPMG received the financial information that resulted in re-work and inefficiencies for the audit team. However, since being appointed auditors' for the City we have seen significant improvements and the addition of the Financial Analyst position in prior years has been paramount in the completion of our audit work in a timely manner, as noted in previous years as well. The Finance Team as a whole works collectively to assist in the completion of the year-end audit.</p> <p><u>Recommendation</u></p> <p>We continue to recommend that the process currently in place be reviewed by management and updated as necessary in order to streamline the process. To facilitate effective completion of the annual year-end closing procedures and to ensure that the municipal filing deadlines are met, formal closing instructions and related accounting practices could be developed.</p>
<p>Tangible capital assets</p>	<p><u>Carried over from previous years</u></p> <p>The tangible capital asset inventory maintained by Finance and the tangible capital asset inventory maintained by Engineering/GIS are in two separate databases and manual spreadsheets are required in the process.</p> <p><u>Current year update</u></p> <p>Separate databases continue to be used for the tangible capital asset inventory maintained by Finance and the tangible capital asset inventory maintained by Engineering/GIS. Manual spreadsheets continue to be required in the process.</p> <p><u>Recommendation</u></p> <p>We continue to recommend that the City consider investing in software that integrates the tangible capital asset inventory maintained by Finance and the tangible capital asset inventory maintained by Engineering/GIS to ensure continuity between the two sets of data rather than using manual spreadsheets, which by their nature are typically more susceptible to error. Additionally, we recommend that as the City looks to update and approve the Capital Asset policy, that Finance works with Engineering to develop a city-wide process and consistent estimates of asset class useful life.</p>

Appendices

Appendix 1: Required communications

Appendix 2: Draft independent auditor's report

Appendix 3: Management representation letter

Appendix 4: Audit Quality and Risk Management

Appendix 5: Background and professional standards

Appendix 6: New auditor reporting

Appendix 7: KPMG's Cyber Security Protocol

Appendix 8: Current developments

Appendix 9: Audit trends

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Audit findings report** – as attached, summarizing the key findings and results of our audit.
- **Management representation letter** – a copy of the management representation letter received for the audit is included as part of these appendices.
- **Auditors' report** – our draft auditors' report is included as part of these appendices.

Appendix 2: Draft independent auditors' report

To Mayor and Council 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, 2017, the consolidated statements of financial activities, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about whether the consolidated financial statements are free from material misstatement.

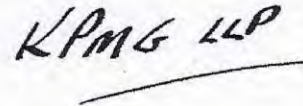
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether

due to fraud or error. In making those risk assessments, we consider 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 the 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 the 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, the 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, 2017, and its consolidated results of operations, its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants
May 14, 2018
Vernon, Canada

Appendix 3: Management representation letter

KPMG LLP
Chartered Professional Accountants
300-3205 32nd Street
Vernon, BC V1T 9A2

May 14, 2018

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of the City of Vernon ("the City") as at and for the period ended December 31, 2017.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1 We have fulfilled our responsibilities, as set out in the professional services agreement issued on December 1, 2016, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with Canadian public sector accounting standards.
 - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared that may affect the financial statements, and access to such relevant information.
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2 We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3 We have disclosed to you:
- a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the City and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the City's financial statements, communicated by employees, former employees, analysts, regulators, or others
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

COMMITMENTS & CONTINGENCIES:

- 4 There are no:
- a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation other environmental matters that may have an impact on the financial statements guarantees, whether written or oral, under which the City is contingently liable.

SUBSEQUENT EVENTS:

- 5 All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 6 We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the Canadian public sector accounting standards.

ESTIMATES:

- 7 Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

MISSTATEMENTS:

- 8 The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- 9 We approve the corrected misstatements identified by you during the audit described in Attachment II.

ASSETS & LIABILITIES – GENERAL:

- 10 The City has satisfactory title to all owned assets.
- 11 We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or signed as security for liabilities, performances of contracts, etc., not disclosed in the financial statements.
- 12 We have no knowledge of any plans or interactions that may materially affect the carrying value or classification of assets and liabilities.

CONTRACTUAL AGREEMENTS:

- 13 The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the City's debt agreements.

ENVIRONMENTAL MATTERS:

- 14 The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

NON-FINANCIAL ASSETS:

- 15 We have reviewed non-financial assets, including tangible capital assets, to be held and used, for impairment, whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

EMPLOYEE FUTURE BENEFITS:

- 16 The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 17 We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.
- 18 The significant accounting policies the City has adopted in applying PS 3255, Postemployment benefits, compensated absences and termination benefits (hereinafter referred to as "PS3255") are disclosed in the notes to the financial statements.
- 19 All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and included in the determination of pension and post-employment costs and obligations. This includes:
 - a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.

- b) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.
 - c) compensated absences for which it is expected employees will be paid. These benefits include accumulated sick days, and termination benefits.
- 20 The post-employment benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with PS 3255. In particular:
- a) each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and
 - b) the best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.
- 21 In arriving at these assumptions, management has obtained the advice of a specialist, but has retained the final responsibility for them.
- 22 The source data and plan provisions provided to the actuary, if necessary, for preparation of the actuarial valuation are accurate and complete.
- 23 All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.

SEGMENT DISCLOSURES:

- 24 The City's operating segments have been appropriately identified and the related segment and enterprise-wide disclosures have been made in the financial statements in accordance with the relevant financial reporting framework. The operating segment information disclosed in the financial statements is consistent with the form and content of the information used by the City's chief operating decision maker for the purposes of assessing performance and making operating decisions about the City's individual operations. All significant differences in measures used to determine segment income have been appropriately identified and described in the disclosures of segment information in accordance with the relevant financial reporting framework.

OTHER:

- 25 Expenditures are appropriately authorized.
- 26 We have appropriately reported the amounts of Home Owner Grants collected as stated on the Home Owners Grants: Treasurer / Auditor Certificate.
- 27 We have complied with subsection 2 and 3 section 124 of Part 8 of the School Act.
- 28 All reserve transactions have been appropriately approved, in accordance with applicable legislation and are appropriately credited to or charged against fund balances. Reserve amounts represent only those amounts that are available for use at the City's discretion and do not include restrictions on use by third parties
- 29 All transfers out of statutory reserves have been approved by bylaw except for those transfers which are allowed by Council resolution, or otherwise approved in the budget.

Yours very truly,

Mr. Will Pearce, Chief Administrative Officer

Ms. Debra Law, Director of Financial Services

cc: The Mayor and Council of the Corporation of the City of Vernon

DRAFT

Attachment I - Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with public sector accounting standards related party is defined as:

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and close family members (see paragraph 2200.05).

In accordance with public sector accounting standards a related party transaction is defined as:

A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II - Adjustments and differences

Corrected adjustments

Corrected adjustments consisted of approximately \$7.1 million to capital assets and recreation expenses regarding the multi-use facility expansion project at Kal Tire Place, on which the City is managing the construction on behalf of RDNO.

As at and year ended December 31, 2017	Surplus effect	Financial position		
		Assets	Liabilities	Accumulated Surplus
	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase
Corrected adjustments				
To adjust classification of expenses for multi-use facility expansion	(7,101)	(7,101)	-	-
Total correct adjustments	(7,101)	(7,101)	-	-

Uncorrected differences

As at and year ended December 31, 2017	Surplus effect	Financial position		
		Assets	Liabilities	Accumulated Surplus
Description of differences greater than \$60,000 individually	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase	(Decrease) Increase
To record effect of amortization taken from the date of use (2016 - \$241)	(207)	(1,029)	-	(822)
To record under-statement of amortization on asphalt overlays (2016 - \$123)	(133)	(416)	-	(283)
To capitalize equipment expenses below internal thresholds	-	930	-	930
To adjust write-off related to RDNO receivables dispute that should have been booked in the prior years	112	-	-	(112)
To record current impact of RCMP contract	332	-	-	(332)
To record impact of prior work-in-progress additions	224	-	-	(224)
To record judgmental difference in sick accrual for management/exempt staff	150	-	(150)	-
Total differences	478	(515)	(150)	(843)

Appendix 4: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control system

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 5: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

Appendix 6: New Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What's new?

Highlights of the new auditors' report include:

Change	Applicability
Re-ordering of the auditors' report including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management's, those charged with governance and auditors' responsibilities	Listed and non-listed entities
Disclosure of name of the engagement partner	Listed entities
Description of key audit matters (KAMs)	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted.

The way forward in Canada

The AASB, working alongside the regulatory bodies, continue to deliberate how the disclosure of KAMs will be required to listed entities in Canada given the recent developments in the U.S.

Appendix 7: KPMG's Cyber Security Protocol

This summary is intended to provide management and Audit Committee members with some insight into KPMG's strategies and procedures regarding our cyber defence.

KPMG Global

KPMG Global provides managed security services for member firms which includes 24x7 monitoring and alerting services to identify potential attacks on our environment. We use a series of centrally managed firewalls among our network of member firms to identify and address potential attacks to member firms and to prevent attacks from spreading between member firms. This approach was in place during the Wanna Cry outbreak and was a critical element in our successful defence against that incident.

KPMG Global has also implemented enhanced email protection to address malware and attacks through email and we have implemented automated vulnerability detection services. This service scans equipment that is exposed to the Internet and identifies known vulnerabilities on a real-time basis. "Good housekeeping" is a central tenet of our approach and we continue to focus on known vulnerabilities and patching.

KPMG Global believes the cloud represents a secure environment when appropriately configured and monitored as a platform to deliver services. Our approach to secure the cloud includes deploying full-time, dedicated security and privacy resources, integrating the cloud platform into our managed security services to promote "good housekeeping," and deploying a continuous monitoring plan for each of the cloud platforms that we deploy to member firms and to our clients.

KPMG Global has invested heavily in enhancing the security of our environment, evidenced by the introduction of our Global Security Operations Centre, managed services and other enhancements to our cyber defence.

KPMG Canada Approach

- KPMG Canada does not currently use Office 365 or Cloud based email.
- Cloud environments provide robust security when properly configured, with proper password management.
- The Canadian firm's email servers are hosted in Canada and controlled and managed by KPMG Canada.
- In compliance with our global security controls, we enforce strong passwords that need to be renewed at regular intervals.
- We also maintain a specific IT security platform for the maintenance and management of privileged accounts.
- KPMG's Information Security Program is built on a comprehensive framework of policies, standards, and processes based on ISO 27001:2013.
- KPMG's security requirements are set out in Global Information Security Policies and Standards (GISP).
- The Canadian firm undergoes an internal audit every year to ensure compliance to key security controls in the GISP.
- Every three years, the Canadian firm goes through a Compliance Review conducted by a team from non-Canadian member firms.

Appendix 8: Current developments

The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications	KPMG comments regarding effect on the audit
<p>Asset Retirement Obligations – Proposed Section PS 3280</p>	<p>The proposed ARO standard would require the City to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (TCA). Some of the typical costs associated with AROs include: asbestos removal; site restoration required under the terms of a lease of land; hazardous materials removal (as components of the asset rather than by-products of operation) and; post retirement monitoring and maintenance, if applicable. Costs associated with retiring TCAs both in productive use and not in productive use are within the scope of this section, and it is therefore more all-encompassing than the most recent standard adopted related to liabilities for contaminated sites.</p> <p>An ARO liability would initially be recorded at its fair value (normally estimated using a present value technique), at the time of acquisition or construction of the TCA. The liability is subsequently increased or "accreted" up to the settlement date using an effective interest rate (normally the rate used to estimate the present value of the liability), with the corresponding debit amount being expensed.</p> <p>A corresponding addition to the carrying amount of TCA is recognized at the same time as the ARO liability, which would then be amortized over the TCA's useful life. The net effect is an increase in TCA and ARO liability upon recognition, and over time, an increase in amortization expense and accretion expense.</p> <p>If the TCA is no longer in use, the amount of the ARO is expensed immediately</p>	<p>As a result of the proposed standard, the City will have to:</p> <ul style="list-style-type: none"> • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCAs to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. • The standard would have a proposed effective date of April 1, 2021 and would be effective for the City's fiscal 2022 year end.

Appendix 9: Audit trends

The following is a summary of KPMG publications that are relevant to the City:

Topic

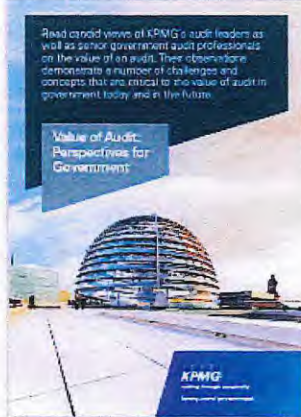
Summary and implications



City leaders would like to be benchmarking themselves against other cities to identify new ideas and innovations. There's a reason that private companies spend millions of dollars on competitive research and analysis. They know that — by comparing themselves against their peers — they can find new ways to improve their service levels, manage costs, allocate resources and, ultimately, increase customer satisfaction.

Our work and conversations with municipal government leaders suggest they would like to be doing the same thing.

[The Value of Benchmarking](#)



Candid views of KPMG's audit leaders as well as senior government audit professionals on the value of an audit. Their observations demonstrate a number of challenges and concepts that are critical to the value of audit in government today and in the future.

[Value of Audit: Perspectives for Government](#)

kpmg.ca/audit



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