



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

THE CORPORATION OF THE CITY OF VERNON

A G E N D A

COMMITTEE OF THE WHOLE

CITY HALL COUNCIL CHAMBER

MONDAY, MAY 11, 2020

AT 8:40 AM

AGENDA

1. CALL TO ORDER

- A. THAT the Agenda for the May 11, 2020, 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 27, 2020, be adopted. (P. 2)

MINUTES

3. BUSINESS ARISING FROM THE MINUTES

4. GENERAL MATTERS

- A. Murray Smith, Partner, and Craig Woods, Senior Manager, KPMG, re: Auditors Report

THAT Council receives and approves the 2019 Audited Financial Statements as presented by representatives of KPMG, LLP, at the May 11, 2020 Committee of the Whole meeting.

2019 FINANCIAL STATEMENTS AND AUDIT FINDINGS REPORT (P. 5)

5. UNFINISHED BUSINESS

6. NEW BUSINESS

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 27, 2020**

PRESENT: Mayor V. Cumming

Councillors: A. Mund, K. Gares, K. Fehr, S. Anderson,
B. Quiring (9:11 am), (D. Nahal, absent)

Staff: W. Pearce, CAO
P. Bridal, DCAO, Director, Corporate Services
S. Blakely, Manager, Legislative Services (Ret.)
K. Austin, Manager, Legislative Services
D. Law, Director Financial Services
S. Koenig, Director, Operations (Ret.)
C. Ovens, Acting Director, Operations
C. Poirier, Manager, Communications & Grants
B. Bandy, Manager, Real Estate
A. Watson, Manager, Transportation
D. Ross, Director, Recreation Services*
G. Mulligan, Infrastructure Management Technician
T. Scott, Infrastructure Engineer
E. Stranks, Manager, Engineering Development Services
D. Lind, Fire Chief

**Attended as Required*

Others: Media
Members of the Public

CALL TO ORDER Mayor Victor Cumming called the meeting to order at 8:40 am.

AGENDA ADOPTION Moved by Councillor Mund, seconded by Councillor Fehr:

THAT the Agenda for the April 27, 2020 Committee of the Whole meeting be adopted, as presented.

CARRIED.

ADOPTION OF THE MINUTES Moved by Councillor Mund, seconded by Councillor Gares:

THAT the minutes of the Committee of the Whole meeting of Council held March 23, 2020, be adopted, as presented.

CARRIED.

BUSINESS ARISING FROM THE MINUTES

GENERAL MATTERS**PRESENTATION –
ACTIVE LIVING CENTRE
FEASIBILITY STUDY –
SURVEY RESULTS
(7700-13)**

Stephen Slawuta, Partner with RC Strategies PERC, (conference call) and Doug Ross, Director Recreation Services, provided a presentation regarding the Active Living Centre Feasibility Study – Survey Results

The following points were reviewed:

- Survey Context and Methodology
- Respondent Overview and Notable Characteristics
 - Priorities and Financial Considerations
- Survey Findings
 - Site Considerations
 - Aquatics Options and Considerations
 - General Comments

Moved by Councillor Gares, seconded by Councillor Anderson:

THAT Council receive the Internal Memorandum titled “Active Living Centre Feasibility Study – Survey Results” dated April 17, 2020 and the accompanying presentation by RC Strategies PERC, respectfully submitted by the Director, Recreation Services, for information.

CARRIED.

UNFINISHED BUSINESS**NEW BUSINESS**

Councillor Quiring entered the meeting at 9:11 am.

Councillor Anderson left the meeting at 9:51 am and returned at 9:54 am

Councillor Fehr left the meeting at 9:56 am.

**DRAINAGE
INFRASTRUCTURE
PRIORITIZATION PLAN
(5700-04-01)**

Geoff Mulligan, Infrastructure Management Technician provided a review of the Drainage Infrastructure Prioritization Plan.

Moved by Councillor Quiring, seconded by Councillor Gares:

THAT Council receive the Drainage Infrastructure Prioritization Plan, dated December 2019 and provided as Attachment 1 to the report titled Drainage Infrastructure Prioritization Plan, dated March 30, 2020 and submitted by the Infrastructure Management Technician;

AND FURTHER, that Council receive the supporting City of Vernon Stormwater Infrastructure Public Infrastructure Engineering Vulnerability Committee (PIEVC) Assessment Report, dated December 2019 and provided as Attachment 2 to the report titled Drainage Infrastructure Prioritization Plan, dated March 30, 2020 and submitted by the Infrastructure Management Technician;

AND FURTHER, that Council direct Administration to investigate high priority overland flow routes to develop a strategy to incorporate overland flow path improvement and protection projects into the Rolling 4 - Year Capital Plan;

AND FURTHER, that Council direct Administration to identify amendments to the City's applicable bylaws to designate and protect overland flow routes as per Section 34 of the Community Charter and Section 744 of the Local Government Act.

CARRIED.

LEGISLATIVE MATTERS

COUNCIL INFORMATION UPDATES

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

INFORMATION ITEMS

Mayor Victor Cumming closed the meeting at 10:00 am.

CLOSE

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: Debra Law, Director, Financial Services **DATE:** May 04, 2020
SUBJECT: 2019 Financial Statements and Audit Findings Report

The 2019 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 increased while total Liabilities have decreased mostly due to additional cash and cash equivalents and the repayment of debt. Cash and cash equivalents have increased but are mostly committed to one time projects the City has planned to spend in 2020.

Tangible Capital Assets (TCA) have decreased over the year due to the cancellation of the Fortis BC Capital lease with a net book value of \$13 million. However, capital investments of \$12.5 million exceeded amortization of \$11.4 million resulting in a net increase in remaining tangible capital assets.

Statement of Operations (Statement B)

On April 27, 2020, the 2019 Amended Budget to Actuals Result was provided to Council which included transfers to and from reserves along with debt principal payments. The 2019 unexpended, uncommitted balance in that report is \$1,977,467. That report differs from the Statement of Operations net surplus due to requirements of Public Sector Accounting Standards (PSAS). These requirements are outlined below:

Revenue:

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

Expenses:

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

As a result, the reported 2019 net surplus based on PSAS standards is \$7,788,000.

RECOMMENDATION:

THAT Council receives and approves the 2019 Audited Financial Statements as presented by representatives of KPMG, LLP, at the May 11, 2020 Committee of the Whole meeting.

Respectfully submitted,

A handwritten signature in blue ink, appearing to be 'Law', written in a cursive style.

Attachments (2)

THE CORPORATION OF THE CITY OF VERNON
Finance Division



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

December 31, 2019



THE CORPORATION OF THE CITY OF VERNON
3400 - 30TH STREET
VERNON, BC V1T 5E6
P:250-545-1361
F:250-545-7876

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.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a smaller 'A' and a period.

Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Law" in a cursive style.

Director of Financial Services

May 11, 2020



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Vernon BC
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INDEPENDENT AUDITORS' REPORT

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2019, and its consolidated results of operations, its consolidated changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

[Date]

Vernon, Canada

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



| December 31, 2019 (in thousands of dollars) | | 2019 | 2018 |
|---|--------------|------------|------------|
| Financial Assets | | | |
| Cash and cash equivalents | Note 2 | \$ 105,912 | \$ 84,108 |
| Accounts receivable | Note 3 | 17,127 | 19,695 |
| Loans receivable | Note 4 | 112 | - |
| Municipal Finance Authority cash deposits | Note 5 | 429 | 857 |
| Land held for resale | Note 6 | 4,254 | 4,748 |
| | | 127,834 | 109,408 |
| Liabilities | | | |
| Accounts payable and accrued liabilities | Note 7 | 29,433 | 29,814 |
| Deferred charges | Note 8 | 16,571 | 13,086 |
| Deferred revenue | Note 9 | 1,565 | 1,806 |
| Debt | Note 10 & 11 | 10,859 | 15,375 |
| Landfill remediation liability | Note 12 | 178 | 130 |
| | | 58,606 | 60,211 |
| | | 69,228 | 49,197 |
| Net Financial Assets | | | |
| Non-financial Assets | | | |
| Tangible capital assets | Note 13 | 562,845 | 575,083 |
| Inventory of supplies | | 483 | 453 |
| Prepaid expenses | | 657 | 692 |
| | | 563,985 | 576,228 |
| Accumulated Surplus | Note 14 | \$ 633,213 | \$ 625,425 |

Commitments and contingencies Note 20 & 22
 Subsequent events Note 26

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, 2019 (in thousands of dollars) | | Budget 2019 Note 25 | Actual 2019 | Actual 2018 |
|--|--------------|---------------------------|----------------|----------------|
| Revenue | | | | |
| Taxation | Note 15 | \$ 42,580 | \$ 42,362 | \$ 39,491 |
| Government transfers | Note 16 | 13,366 | 11,281 | 17,473 |
| Services provided to other governments | | 3,203 | 3,199 | 3,192 |
| Sale of services: | | | | |
| Sewer fees and charges | | 9,661 | 9,840 | 9,645 |
| Environmental health | | 2,138 | 2,347 | 2,307 |
| Recreation fees | | 2,782 | 2,938 | 2,390 |
| Public transit and parking | | 2,186 | 2,299 | 2,241 |
| Fines and rentals | | 1,411 | 1,345 | 1,544 |
| Licences and permits | | 1,525 | 1,892 | 2,064 |
| Airport | | 967 | 1,284 | 1,255 |
| Other | | 1,150 | 1,412 | 1,572 |
| Development fees | | 151 | 115 | 195 |
| Fiscal services: | | | | |
| Penalties, interest earned and actuarial adjustments | | 1,399 | 3,451 | 4,924 |
| Natural gas system lease agreement | Note 17 | 1,874 | 1,832 | 1,874 |
| Developer contributions of assets | Note 13 | 4,268 | 3,551 | 4,128 |
| | | 88,661 | 89,148 | 94,295 |
| Expenses | | | | |
| General government and common services | Note 19 & 24 | 11,247 | 10,864 | 10,150 |
| Bylaw compliance and parking control | | 1,397 | 1,514 | 1,391 |
| Protective Services: | | | | |
| Police | | 12,953 | 12,465 | 11,262 |
| Fire rescue | | 6,195 | 6,546 | 6,176 |
| Emergency measures | | 216 | 205 | 291 |
| Planning and building inspection | | 2,964 | 2,695 | 2,649 |
| Engineering | | 4,389 | 3,877 | 2,731 |
| Operations Services: | | | | |
| Road transportation | | 17,146 | 16,903 | 16,391 |
| Sanitary sewer | | 10,609 | 10,691 | 9,981 |
| Solid waste and recycling | | 1,861 | 1,961 | 1,899 |
| Park services | | 2,258 | 2,569 | 2,151 |
| Storm drainage | | 1,383 | 1,506 | 1,571 |
| Airport | | 1,126 | 1,417 | 1,180 |
| Other | | 475 | 671 | 668 |
| Cemetery | | 287 | 292 | 384 |
| Recreation | | 7,074 | 7,184 | 13,239 |
| | | 81,580 | 81,360 | 82,114 |
| Annual surplus | | 7,081 | 7,788 | 12,181 |
| Accumulated surplus, beginning of year | | 625,425 | 625,425 | 613,244 |
| Accumulated surplus, end of year | Note 14 | \$ 632,506 | \$ 633,213 | \$ 625,425 |

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

| For the year ended December 31, 2019 (in thousands of dollars) | Budget 2019 Note 25 | 2019 | 2018 |
|---|---------------------------|------------------|------------------|
| Annual Surplus | \$ 7,081 | \$ 7,788 | \$ 12,181 |
| Amortization of tangible capital assets | 12,116 | 11,421 | 11,133 |
| Net loss on sales of assets | - | 23 | 165 |
| Proceeds on sale of tangible capital assets | - | 13,299 | 82 |
| Acquisition of tangible capital assets | - | (9,269) | (13,597) |
| Acquired tangible capital assets from developers Note 13 | - | (3,236) | (2,177) |
| | <u>12,116</u> | <u>12,238</u> | <u>(4,394)</u> |
| Consumption of supplies inventories | - | 977 | 1,027 |
| Use of prepaid expenses | - | 826 | 913 |
| Acquisition of supplies inventories | - | (1,007) | (988) |
| Acquisition of prepaid expenses | - | (791) | (1,326) |
| | - | 5 | (374) |
| Increase in net financial assets | <u>19,199</u> | <u>20,029</u> | <u>7,413</u> |
| Net financial assets, beginning of year | - | 49,197 | 41,784 |
| Net financial assets, end of year | <u>\$ 19,199</u> | <u>\$ 69,228</u> | <u>\$ 49,197</u> |

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

The Corporation of the City of Vernon
Consolidated Statement of Cash Flows
Statement D



| For the year ended December 31, 2019 (in thousands of dollars) | 2019 | 2018 |
|--|------------|-----------|
| Operating Activities | | |
| Annual surplus | \$ 7,788 | \$ 12,181 |
| Non-cash items included in annual surplus: | | |
| Amortization of tangible capital assets | 11,421 | 11,133 |
| Net loss on disposal of tangible capital assets | 23 | 165 |
| Developer contributions of assets | (3,236) | (2,177) |
| Increase in landfill remediation liability | 48 | 26 |
| Change in non-cash operating items: | | |
| Decrease/(increase) in accounts receivable | 2,568 | (957) |
| (Decrease) in accounts payable and accrued liabilities | (381) | (3,771) |
| Increase/(decrease) in deferred charges | 3,485 | (81) |
| (Decrease) in deferred revenue | (241) | (341) |
| Actuarial adjustments on debt | (1,657) | (1,508) |
| (Increase)/decrease in supplies inventories | (30) | 39 |
| Decrease/(increase) in prepaid expenses | 35 | (413) |
| Decrease in Municipal Finance Authority cash deposits | 428 | 1,598 |
| (Decrease) in Municipal Finance Authority reserves | - | (2,455) |
| (Increase) in loans receivable | (112) | - |
| | 20,139 | 13,439 |
| Investing Activities: | | |
| Decrease in portfolio investments | - | 5,414 |
| Decrease in land under development | 494 | 30 |
| | 494 | 5,444 |
| Financing Activities: | | |
| Principal payments on debt | (1,800) | (1,798) |
| Gain on retirement of debt | (1,059) | - |
| | (2,859) | (1,798) |
| Capital Activities: | | |
| Proceeds on sale of tangible capital assets | 13,299 | 82 |
| Acquisition of tangible capital assets | (9,269) | (13,597) |
| | 4,030 | (13,515) |
| Increase in cash and cash equivalents | 21,804 | 3,570 |
| Cash and cash equivalents, beginning of year | 84,108 | 80,538 |
| Cash and cash equivalents, end of year | \$ 105,912 | \$ 84,108 |

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, 2019
(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 Public Sector Accounting Standards ("PSAS") established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Professional Accountants.

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, 2019
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies: (continued)

e) Land Held for Resale:

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

f) Deferred Charges:

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

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), Deferred Charges (note 8) and Deferred Revenue (note 9).

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 long term debt in 2019 was \$1,026,000, (\$1,065,000 in 2018). Gains or losses on repayment of debt is recorded in the Statement of Operations.

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.

During 2018 the City's consultants responsible for reporting to the Province determined there were some discrepancies with the 2016 Closure plan ("the Plan") prepared for the City by external consultants. A revised Operating and Closure plan will be prepared; however, the original Plan will be used for the purposes of calculating the closure and post-closure liability (note 12) until the revised plan is prepared. Due to the identified discrepancies there is additional measurement uncertainty regarding the estimated closure costs and lifespan of the landfill.

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, 2019
(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 |

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.

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

1. Significant Accounting Policies: (continued)

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 PSAS financial statement presentation requirements where appropriate. Subsequent amendments have been authorized by City Council to reflect changes in the budget. Such amendments are not reflected in the financial statement budget figures (note 25).

q) 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, 2019
(tabular amounts in thousands of dollars)

2. Cash and Cash Equivalents:

| | 2019 | 2018 |
|--------------------|-------------------|------------------|
| Restricted: | | |
| Deferred charges | \$ 16,571 | \$ 13,086 |
| Deferred revenue | 1,565 | 1,806 |
| Statutory reserves | 3,519 | 3,442 |
| | <u>21,655</u> | <u>18,334</u> |
| Unrestricted: | 84,257 | 65,774 |
| | <u>\$ 105,912</u> | <u>\$ 84,108</u> |

The City has access to an operating line of credit not exceeding \$2.0 million (2018 - \$2.0 million). Interest is accrued based on Bank of Montreal's prime lending rate. As of December 31, 2019, this line of credit was not being utilized (2018- \$0).

3. Accounts Receivable:

| | 2019 | 2018 |
|--|------------------|------------------|
| Property taxes | \$ 3,313 | \$ 3,724 |
| Utility billings | 7,424 | 7,037 |
| Other governments | 3,328 | 6,237 |
| Trade and other receivables | 3,164 | 2,822 |
| | <u>17,229</u> | <u>19,820</u> |
| Allowance for doubtful trade accounts receivable | (102) | (125) |
| | <u>\$ 17,127</u> | <u>\$ 19,695</u> |

4. Loans Receivable

The City has a loan receivable in the amount of \$112,000 (2018 - \$0) from the Vernon Pickleball Association to assist in financing the construction of a Pickleball facility. The loan receivable does not bear interest and is to be repaid in full by December 31, 2029.

5. Municipal Finance Authority Cash Deposits:

The City's debt is issued through the Municipal Finance Authority ("MFA"). As a condition of these borrowings, the City is obligated to lodge security by means of demand notes and interest bearing cash deposits based on the amount of the borrowing. The deposits are included in the City's financial statements as Municipal Finance Authority Cash deposits. If the debt is repaid without default, the deposits are refunded to the City. The demand notes, which are contingent in nature, are held by the MFA to act as security against the possibility of debt repayment default. As at December 31, 2019, there were contingent demand notes of \$723,000 (2018 - \$1,608,000) which are not recorded in the financial statements (note 22(b)). Upon the maturity of a debt issue, the demand notes are released and deposits refunded to the City.

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

6. Land held for resale

In 2014, land was transferred back to the City from its wholly owned subsidiary Hesperia Development Corporation and is being held for resale. In 2017, the City entered into a Land Purchase and Development Framework agreement for the sale of another parcel of City owned land. The accumulated value of these lands is \$4,254,000 (2018 - \$4,748,000) which is comprised of the historical cost of the lands plus all prior improvements. Such costs have not been included in tangible capital assets since the land and improvements are subject to resale.

7. Accounts Payable and Accrued Liabilities:

| | 2019 | 2018 |
|--|------------------|------------------|
| Trade accounts payable and other accrued liabilities | \$ 15,896 | \$ 14,984 |
| Salaries, wages and related costs | 5,457 | 5,055 |
| | <u>21,353</u> | <u>20,039</u> |
| Deferred revenue | | |
| Prepaid property taxes | 4,537 | 3,969 |
| Deposits and holdbacks | 3,409 | 5,694 |
| Prepaid fees and charges | 134 | 112 |
| | <u>8,080</u> | <u>9,775</u> |
| | <u>\$ 29,433</u> | <u>\$ 29,814</u> |

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

8. Deferred Charges:

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

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|------------------|------------------|
| Deferred charges | | |
| DCC - roads | \$ 7,027 | \$ 4,363 |
| DCC - storm | 2,065 | 1,915 |
| DCC - sewer | 5,380 | 4,724 |
| DCC - parks | 14 | - |
| Works Contributions | 2,085 | 2,084 |
| | <u>\$ 16,571</u> | <u>\$ 13,086</u> |
| | | |
| Deferred charges, beginning of year | \$ 13,086 | \$ 13,167 |
| DCC's levied during the year | 3,943 | 1,586 |
| Works Contributions received | 70 | 97 |
| Investment income | 317 | 187 |
| Contributions available | <u>17,416</u> | <u>15,037</u> |
| Less: Capital transfers | 520 | 1,697 |
| Less: Operating transfers | 325 | 254 |
| Deferred charges, end of year | <u>\$ 16,571</u> | <u>\$ 13,086</u> |

9. Deferred Revenue:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------|-----------------|
| Recreation Facility Major Maintenance | \$ 1,565 | \$ 1,726 |
| Recreation Facility Replacement (Civic) | - | 33 |
| Recreation Facility Operating | - | 47 |
| | <u>\$ 1,565</u> | <u>\$ 1,806</u> |

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

10. Debt:

| | Purpose of Bylaw | Interest Rate % | Year of Maturity | Gross Debt | Sinking Fund Asset | 2019 Net Debt | 2018 Net Debt |
|--------------------------|--------------------------|-----------------|------------------|-----------------|--------------------|------------------|------------------|
| <u>General Purposes:</u> | | | | | | | |
| 4717 | Fortis BC Gas Lease * | 2.10 % | 2019 | \$24,500 | \$24,500 | \$ - | \$ 2,069 |
| 4718 | Fortis BC lease* | 1.95 % | 2037 | 1,185 | 1,185 | - | 1,081 |
| 4624 | Downtown Revitalization | 1.80 % | 2020 | 388 | 355 | 33 | 65 |
| 4625 | Downtown Revitalization | 1.80 % | 2020 | 128 | 117 | 11 | 22 |
| 4728 | Downtown Revitalization | 1.80 % | 2020 | 211 | 193 | 18 | 36 |
| 4739 | Various | 1.80 % | 2020 | 4,675 | 4,274 | 401 | 788 |
| | | | | <u>31,087</u> | <u>30,624</u> | <u>463</u> | <u>4,061</u> |
| <u>Sewer Purposes:</u> | | | | | | | |
| 4889 | Reclaimed Water Line | 1.80 % | 2020 | 1,061 | 970 | 91 | 179 |
| 4680 | Treatment Plant Phase I | 1.75 % | 2027 | 5,000 | 2,707 | 2,293 | 2,521 |
| 4680 | Treatment Plant Phase II | 2.40 % | 2028 | 2,038 | 1,010 | 1,028 | 1,116 |
| 4791 | Water Reclamation Plant | 1.80 % | 2030 | 12,556 | 5,572 | 6,984 | 7,498 |
| | | | | <u>20,655</u> | <u>10,259</u> | <u>10,396</u> | <u>11,314</u> |
| | | | | <u>\$51,742</u> | <u>\$40,883</u> | <u>\$ 10,859</u> | <u>\$ 15,375</u> |

* See Note 17 for capital lease liabilities.

11. Future Payments and Sinking Fund Additions:

| | General | Sewer | Total |
|-----------------------|---------------|------------------|------------------|
| 2020 | \$ 290 | \$ 541 | \$ 831 |
| 2021 | - | 484 | 484 |
| 2022 | - | 484 | 484 |
| 2023 | - | 484 | 484 |
| 2024 | - | 484 | 484 |
| 2025 & thereafter | - | 2,504 | 2,504 |
| | <u>290</u> | <u>4,981</u> | <u>5,271</u> |
| Actuarial adjustments | 173 | 5,415 | 5,588 |
| | <u>\$ 463</u> | <u>\$ 10,396</u> | <u>\$ 10,859</u> |

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

12. Landfill Remediation Liability

a) 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 waste. 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 the 2016 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% (2018 - 1.5%) and then discounted to the financial reporting date at 1.90% (2018 - 2.31%), 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, 2019 is \$178,000 (2018 - \$130,000), the estimated total expenditures for closure and post-closure care are \$1,626,000 (2018 - \$1,281,000), which leaves \$1,448,000 (2018 - \$1,151,000) remaining to be recognized. The landfill is estimated to have remaining capacity of 855,068 cubic meters (89%) and remaining life of 51 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, 2019 the balance of this reserve is \$312,000 (2018 - \$312,000).

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.

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

13. Tangible Capital Assets:

| Cost | December 31, 2018 | Additions | Disposals / Writedowns | December 31, 2019 |
|-------------------------------|--------------------------|------------------|-----------------------------------|--------------------------|
| Land | \$ 266,781 | \$ 1,654 | \$ - | \$ 268,435 |
| Buildings | 65,200 | 2,241 | 62 | 67,379 |
| Vehicles | 13,723 | 2,501 | 42 | 16,182 |
| Miscellaneous equipment | 4,934 | 680 | - | 5,614 |
| Information technology | 2,706 | 465 | 139 | 3,032 |
| Transportation infrastructure | 230,491 | 6,129 | 702 | 235,918 |
| Storm drainage infrastructure | 80,222 | (420) | 107 | 79,695 |
| Sanitary sewer infrastructure | 105,375 | (745) | 50 | 104,580 |
| Equipment under capital lease | 25,295 | - | 25,295 | - |
| | <u>\$ 794,727</u> | <u>\$ 12,505</u> | <u>\$ 26,397</u> | <u>\$ 780,835</u> |

| Accumulated Amortization | December 31, 2018 | Amortization | Disposals | December 31, 2019 |
|---------------------------------|--------------------------|---------------------|------------------|--------------------------|
| Buildings | \$ 28,497 | \$ 1,671 | \$ 54 | \$ 30,114 |
| Vehicles | 8,283 | 638 | 37 | 8,884 |
| Miscellaneous equipment | 1,289 | 175 | - | 1,464 |
| Information technology | 2,236 | 188 | 121 | 2,303 |
| Transportation infrastructure | 113,183 | 5,575 | 510 | 118,248 |
| Storm drainage infrastructure | 24,097 | 1,057 | 46 | 25,108 |
| Sanitary sewer infrastructure | 30,495 | 1,395 | 21 | 31,869 |
| Equipment under capital lease | 11,564 | 722 | 12,286 | - |
| | <u>\$ 219,644</u> | <u>\$ 11,421</u> | <u>\$ 13,075</u> | <u>\$ 217,990</u> |

| Net Book Value | December 31, 2018 | December 31, 2019 |
|-------------------------------|--------------------------|--------------------------|
| Land | \$ 266,781 | \$ 268,435 |
| Buildings | 36,703 | 37,265 |
| Vehicles | 5,440 | 7,298 |
| Miscellaneous equipment | 3,645 | 4,150 |
| Information technology | 470 | 729 |
| Transportation infrastructure | 117,308 | 117,671 |
| Storm drainage infrastructure | 56,125 | 54,586 |
| Sanitary sewer infrastructure | 74,880 | 72,711 |
| Equipment under capital lease | 13,731 | - |
| | <u>\$ 575,083</u> | <u>\$ 562,845</u> |

The Corporation of the City of Vernon

Notes to the Consolidated Financial Statements



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

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 \$12,717,000 (2018 - \$17,583,000) 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 \$3,236,000 (2018 - \$2,177,000) comprised of transportation infrastructure in the amount of \$1,194,000 (2018 - \$128,000), storm drain infrastructure in the amount of \$315,000 (2018 - \$64,000) and sanitary sewer infrastructure in the amount of \$1,727,000 (2018 - \$49,000) and land in the amount of \$nil (2018 - \$1,936,000).

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, 2019 and 2018.

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

14. Accumulated Surplus:

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

| | <u>2019</u> | <u>2018</u> |
|---|-----------------|-----------------|
| Accumulated surplus per Statement of Financial Position | \$ 633,213 | \$ 625,425 |
| Less: | | |
| Tangible capital assets | (562,845) | (575,083) |
| Debt | 10,859 | 15,375 |
| Inventory of supplies | (483) | (453) |
| Prepaid expenses | (657) | (692) |
| | <u>80,087</u> | <u>64,572</u> |
| Non-Statutory Reserves | | |
| Budget Carryover Reserve General | 5,407 | 2,522 |
| Budget Carryover Reserve Sewer | 87 | 87 |
| Capital Reserves General | 16,076 | 13,202 |
| Capital Reserves Sewer | 11,242 | 12,567 |
| Operating Reserves General | 156 | 207 |
| Tax Equalization Reserves General | 5,383 | 5,439 |
| Tax Equalization Reserves Sewer | 14,263 | 11,587 |
| Special Purpose Reserves | 7,312 | 7,820 |
| Fortis BC Lease Legacy Reserve | 13,586 | 3,092 |
| | <u>73,512</u> | <u>56,523</u> |
| Statutory Reserve Funds | | |
| Highway Access to Water Reserve | 645 | 630 |
| Land Sale Reserve | 436 | 485 |
| Local Improvement Reserve | 886 | 864 |
| Parkland Reserve | 244 | 238 |
| Recreation Facility Operating Reserve | 1,308 | 1,225 |
| | <u>3,519</u> | <u>3,442</u> |
| Total Restricted Funds | <u>77,031</u> | <u>59,965</u> |
| Unappropriated Surplus | <u>\$ 3,056</u> | <u>\$ 4,607</u> |

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

15. Taxation Revenue:

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

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|------------------|------------------|
| Specific assessments: | | |
| Residential | \$ 26,751 | \$ 24,370 |
| Business | 12,860 | 12,381 |
| Utilities | 301 | 291 |
| Light industrial | 585 | 551 |
| Non-profit | 152 | 144 |
| Farm land | 4 | 4 |
| | <u>40,653</u> | <u>37,741</u> |
| Payments in lieu of taxes | 1,549 | 1,544 |
| Specified area taxes and other | 160 | 206 |
| | <u>\$ 42,362</u> | <u>\$ 39,491</u> |

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

16. Transfers from Other Governments

| | 2019 | 2018 |
|---|------------------|------------------|
| Federal government transfers | | |
| Transportation infrastructure | \$ 3,782 | \$ 1,958 |
| Sanitary infrastructure | 236 | 2,156 |
| Recreational initiatives | - | - |
| Storm infrastructure | 298 | - |
| | <u>4,316</u> | <u>4,114</u> |
| Provincial government transfers | | |
| Transit subsidy | 2,341 | 2,304 |
| Casino revenue sharing | 1,859 | 1,516 |
| Hotel tax | 1,107 | 1,035 |
| Traffic fine revenue sharing | 475 | 461 |
| Keep of Prisoners | 182 | 337 |
| Carbon tax rebate | 109 | 85 |
| Other Transfers | 98 | 4 |
| Union of British Columbia Municipalities grants | 69 | 29 |
| Certificate of Recognition safety program | 62 | 63 |
| Insurance Corporation of BC | 56 | 20 |
| Municipal Insurance Association | 31 | 7 |
| Transportation infrastructure | 30 | 437 |
| Tourism BC | 25 | 25 |
| Emergency Management BC | (4) | 94 |
| | <u>6,440</u> | <u>6,417</u> |
| Other government transfers | | |
| Recreational initiatives | 336 | 6,509 |
| Okanagan Basin Water Board | 91 | 90 |
| Regional initiatives | 71 | 4 |
| Community development initiatives | 27 | 339 |
| | <u>525</u> | <u>6,942</u> |
| Total transfers from other governments | <u>\$ 11,281</u> | <u>\$ 17,473</u> |

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



Year Ended December 31, 2019

(tabular amounts in thousands of dollars)

17. Natural Gas System Lease Agreements:

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

a) Leased tangible capital assets:

Under the terms of the agreement, the City 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 prepaid \$23,750,000 of the capital lease obligation and financed the prepayment through debenture debt (Debt Bylaw # 4717, note 10). The remaining obligation, which was included in debt, required the City to make annual lease payments of \$127,884 including interest based on Fortis BC-approved pre-tax weighted average cost of capital of 9.85%. During 2019 Fortis BC exercised their termination option, based on the terms of the lease, and made a payment to the City equal to the unamortized portion of the City's \$23,750,000 prepayment of the leased tangible capital assets, which was \$12,239,000. The remaining obligation, which was included in debt, was forgiven by Fortis BC upon termination of the operating lease, and had a balance of \$1,059,000.

b) Operating Lease:

The City had entered into a 17-year operating lease that commenced December 1, 2002 whereby the City leased back to Fortis BC the operation of the gas distribution system. Under the operating lease, Fortis BC was obligated to make annual lease payments to the City that was calculated by a formula specified in the agreement based on the total annual revenue generated by the transaction. The lease revenue in 2019 was \$1,832,000, (\$1,874,000 in 2018).

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

a) Water Agreement

The City has entered into a five-year agreement with the Regional District for the operation of the water system in Vernon and Electoral Areas B and C and owned by the Regional District. This agreement replaces a 5-year agreement expiring January 31, 2018. 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, 2023.

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

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

b) Parks Agreements

The City entered into an agreement with the Regional District to assume responsibility for the management and operation of local parks commencing January 1, 2018. This agreement transfers the legal interest in Vernon fields and beaches (previously designated as "sub-regional parks") to the City. As per the requirements of the agreement, the City has a Parks DCC bylaw approved by the Ministry of Housing and Municipal Affairs ("the Ministry"). Prior to the City's Parks DCC bylaw being approved by the Ministry, Parks DCCs were collected under the Regional District's Parks DCC bylaw with an allocation based on contributions from each jurisdiction. The amount allocated to the City as of December 31, 2019 was \$6,518,000 (2018 - \$4,379,000), which is not recognized in the financial statements.

c) Recreation Agreements

The City has entered into a 5-year agreement with the Regional District to assume the responsibility for the management and operation of local recreational facilities commencing January 1, 2019. The new agreement maintains the commitment to transfer recreation facilities and related land from the Regional District to the City to re-align responsibility for the facilities and programming to the City. 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 \$47,883,000 (2018 \$36,582,000) have not yet been transferred to the City as of December 31, 2019. The agreement expires December 31, 2023.

19. Expenses by Object:

| | 2019 | 2018 |
|---|------------------|------------------|
| Salaries and wages | \$ 30,289 | \$ 27,622 |
| Contracted services | 18,596 | 22,219 |
| RCMP contract | 9,672 | 8,337 |
| Amortization of tangible assets | 11,421 | 11,132 |
| Supplies, materials and other | 3,610 | 5,157 |
| Bank charges and net loss on capital assets | 1,251 | 1,351 |
| Utilities, telephone and insurance | 4,352 | 4,271 |
| Equipment charges | 2,169 | 2,025 |
| | \$ 81,360 | \$ 82,114 |

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 paid in full in the amount of \$1,310,000 upon occupancy by BC Transit of the site in November 2011 and is included in note 7 as an accrued liability.

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

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.

| | 2019 | 2018 |
|--|---------------|---------------|
| Trust Fund Continuity: | | |
| Balance, beginning of year | \$ 848 | \$ 813 |
| Interest earned | 22 | 16 |
| Proceeds from plot sales and memorial settings | 32 | 35 |
| Transfers to general fund for maintenance | (22) | (16) |
| Balance, end of year | <u>\$ 880</u> | <u>\$ 848</u> |

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 B.C. The City is obligated under the plan to pay a percentage of its fellow insured's losses. The City pays an annual premium, which is anticipated to be adequate to cover any losses incurred.

d) Legal Claims:

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

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

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 provided are based on a formula. As at December 31, 2018, the Plan has about 205,000 active members and approximately 101,000 retired members. Active members include approximately 40,000 contributors from local government.

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

The most recent valuation for the Municipal Pension Plan as at December 31, 2018, indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis.

The City paid \$2,391,000 (2018 - \$2,217,000) for employer contributions while employees contributed \$2,033,000 (2018 - \$1,884,000) to the Plan in fiscal 2019.

The next valuation will be as at December 31, 2020, with results available in 2022.

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 property was being developed by the wholly-owned subsidiary, the Hesperia Development Corporation. The amount of the Letter of Credit is \$716,000. As of December 31, 2019, no drawing on the Letter of Credit has occurred (2018 - \$0).

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



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

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 administrating and encouraging compliance to regulatory bylaws, patrolling City owned/leased paid parking lots, residential permit zones and restricted parking areas. They also patrol and maintain almost 1,000 parking meters. This function focuses on community security and safety programs in conjunction with police services.
- The City's subsidiary corporations are 100% owned.
- Revenues associated with this segment include all those amounts that can not be attributed directly to other segments including taxation, grants in lieu, interest revenue and property rental revenue.

b) **Protective Services:**

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

- Police services are contracted to the RCMP with support assistance from municipal staff. The City is home to 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 measures is responsible for emergency planning within the community and is engaged when more than one individual member is affected by an emergency situation.

The Corporation of the City of Vernon

Notes to the Consolidated Financial Statements



Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

23. Segmented Information: (continued)

c) Community Infrastructure:

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.
- Buildings 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 Planning and Operations.

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 and recreation 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, 2019
(tabular amounts in thousands of dollars)

24. Segmented Disclosure:

| | General Government | Protective Services | Community Infrastructure | Recreation | Operations Services | Sanitary Sewer | 2019 | 2018 |
|--|-----------------------|------------------------|-----------------------------|-------------------|------------------------|-------------------|------------------|------------------|
| Revenue | | | | | | | | |
| Taxation | \$ 42,305 | \$ - | \$ - | \$ 35 | \$ - | \$ 22 | \$ 42,362 | \$ 39,491 |
| Sale of services | 2,435 | 238 | 2,036 | 3,718 | 5,133 | 9,913 | 23,473 | 23,213 |
| Government transfers | 6,690 | 788 | 283 | 353 | 2,839 | 328 | 11,281 | 17,473 |
| Fiscal services | 3,451 | - | - | - | - | - | 4,668 | 4,924 |
| Developer contributions of assets | - | - | 153 | - | 1,463 | 1,934 | 3,550 | 4,128 |
| Services to other governments | 641 | 286 | 232 | 1,127 | 416 | 497 | 3,199 | 3,192 |
| Natural gas system agreement | 1,832 | - | - | - | - | - | 1,832 | 1,874 |
| | \$ 57,354 | \$ 1,312 | \$ 2,704 | \$ 5,233 | \$ 9,851 | \$ 12,694 | \$ 89,148 | \$ 94,295 |
| Expenses | | | | | | | | |
| Salaries and wages | 8,175 | 7,895 | 3,974 | 4,097 | 3,767 | 2,381 | 30,289 | 27,622 |
| Contracted services | 2,611 | 513 | 2,127 | 1,116 | 10,582 | 1,647 | 18,596 | 22,219 |
| RCMP contract | - | 9,672 | - | - | - | - | 9,672 | 8,337 |
| Amortization of tangible assets | 1,707 | 342 | - | 26 | 6,708 | 2,638 | 11,421 | 11,132 |
| Supplies, materials and other | (1,456) | 370 | 370 | 629 | 1,465 | 2,232 | 3,610 | 5,157 |
| Bank fees and net loss on assets | 511 | - | - | 47 | 281 | 412 | 1,251 | 1,351 |
| Utilities, telephone and insurance | 725 | 203 | 11 | 1,213 | 1,202 | 998 | 4,352 | 4,271 |
| Equipment charges | 106 | 221 | 90 | 56 | 1,313 | 383 | 2,169 | 2,025 |
| | 12,379 | 19,216 | 6,572 | 7,184 | 25,318 | 10,691 | 81,360 | 82,114 |
| Excess (deficiency) revenue over expenses | \$ 44,975 | \$ (17,904) | \$ (3,868) | \$ (1,951) | \$ (15,467) | \$ 2,003 | \$ 7,788 | \$ 12,181 |

The Corporation of the City of Vernon

Notes to the Consolidated Financial Statements

Year Ended December 31, 2019
(tabular amounts in thousands of dollars)

25. Budget Data:

The budget data presented in these consolidated financial statements is based upon the 2019 operating and capital budgets approved by Council on January 27, 2019. The schedule below reconciles the approved budget in bylaw #5732 to the budget figures reported in these consolidated financial statements.

| | <u>Budget Amount</u> |
|---|--------------------------|
| Revenue: | |
| Operating budget | \$ 116,039 |
| Capital budget | <u>17,505</u> |
| | 133,544 |
| Less: | |
| Transfers from other funds and reserves | 11,850 |
| Collections for other governments | <u>33,033</u> |
| | <u>(44,883)</u> |
| Total Revenue | <u>88,661</u> |
| Expenses: | |
| Operating budget | 125,029 |
| Capital budget | <u>21,902</u> |
| | 146,931 |
| Less: | |
| Capital expenses | 21,902 |
| Transfers to other funds and reserves | 8,616 |
| Debt principal payments | 1,800 |
| Collections for other governments | <u>33,033</u> |
| | <u>(65,351)</u> |
| Total Expenses | <u>81,580</u> |
| Annual Surplus | <u>\$ 7,081</u> |

26. Subsequent Events

Subsequent to December 31, 2019 the coronavirus disease (COVID-19) was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including Canada, to enact emergency measures to combat the spread of COVID-19. The Province of British Columbia declared a State of Emergency which, combined with various orders by the Province's public health officer, has caused material disruption to businesses throughout the Province. The current situation is dynamic and the duration and financial impact of COVID-19 on the economy and the City is not known, an estimate of the financial effect on the City is not practicable at this time.

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Summary of audit findings



Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of the Corporation of the City of Vernon as at and for the year ended December 31, 2019.

This Audit Findings Report builds on the Audit Planning Report we provided to Council dated March 31, 2020.



Changes from the Audit Plan

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



Finalizing the audit

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with Council;
- Obtaining the signed management representation letter;
- Obtaining evidence of Council's acceptance of the consolidated financial statements; and
- Completing subsequent event review procedures up to the date of Council's acceptance of the consolidated financial statements.

We will update Council 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.

Summary of audit findings



Areas of audit focus

Our audit is risk-focused. We have not identified any significant risks. However, as part of our audit, we identified areas of audit focus which include:

- Legal matters and contingent liabilities
- Cash, short-term investments and debt
- Personnel expenses
- Revenue, deferred revenue and accounts receivable
- Tangible capital assets
- Accounts payable, accrued liabilities and expenses

See pages 4 to 6 for the audit findings related to these areas of audit focus.



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.

We identified 5 differences that remain uncorrected. Professional standards require that we request of management and Council that all identified adjustments or differences be corrected. We have already made this request of management.

Based on both qualitative and quantitative considerations, management have decided not to correct the differences, and represented to us that the uncorrected difference – individually and in aggregate – is, in their judgment, not material to the consolidated financial statements. We concur with management’s representation and accordingly the difference has no effect on our auditors’ report.

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

See pages 19 and 20 for further details.




Summary of audit findings

 **Significant accounting policies and practices**

We have reviewed the financial reporting impact of the new accounting standards effective for the City's 2019 fiscal year end with no issues noted. There have been no other initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

The presentation and disclosure of the financial statements are, in all material respects, in accordance with Canadian public sector accounting standards. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

See page 13 for further details.

 **Control and other observations**

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting.

We have identified other matters that we believe will be of interest to management and Council.

See pages 14 to 17 for further details.

 **Independence**

We confirm that we are independent with respect to the City within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2019 up to the date of this report.

 **Current developments**

There have been no significant updates to the current developments included in our Audit Planning Report previously provided to Council.

Areas of audit focus and results

We highlight our significant findings in respect of areas of audit focus.

| Area of audit focus | Why is it significant? | Our response and significant findings |
|--|---|--|
| Legal matters and contingent liabilities | Due to the risk that certain amounts may not be disclosed or recorded in the financial statements | We have performed legal inquiries with management and received third party legal confirmations from the City's main legal counsel regarding developments in the 2019 fiscal year and subsequent to year-end. No unknown matters were brought to our attention. |
| Cash, short-term investments and debt | Due to the significant balance | We agreed cash, short term investments and debt to third party confirmations. We reviewed note disclosures around each financial statement captionation for the above mentioned items and agreed it to supporting documentation. No audit issues noted. |
| Personnel expenses | Due to the risk that certain amounts may not be disclosed or recorded in the financial statements | We reviewed management's calculation of sick leave accrual and selected a sample of employees to agree calculation inputs back to source data. KPMG recalculated the estimated sick leave accrual, and in our opinion, the accrual continues to be overprovided for management exempt employees. Refer to page 17 for further details. |
| Revenue, deferred revenue and accounts receivable | Due to the significant balance | Audit procedures with respect to revenues included: test of details and substantive analytical procedures over significant revenue streams, confirmation of grant revenues to related agreements and assessment of revenue recognition in accordance with the financial reporting framework. We tested significant deferred revenue additions and transfers into revenue. No audit issues noted. |

Areas of audit focus and results (continued)

| Area of audit focus | Why is it significant? | Our response and significant findings |
|---|---|---|
| <p>Tangible capital assets</p> | <p>Due to the significant balance</p> | <p>Audit procedures performed included agreeing tangible capital asset purchases and disposals for the year to supporting documentation, recalculating amortization for the year, assessing the City's accounting policies for tangible capital assets, reviewing assets for impairments in value and detailed testing of repairs and maintenance expenses.</p> <p>No audit issues noted with respect to additions or disposals.</p> <p>Based on the results of our audit procedures amortization and estimated useful lives of capital assets, consistent with prior years, we have identified audit difference related to these. Refer to page 16 for further discussion.</p> |
| <p>Accounts payable and accrued liabilities Expenses</p> | <p>Due to the risk that certain amounts may not be disclosed or recorded in the financial statements and due to the significant balance</p> | <p>We performed a search for unrecorded liabilities by reviewing invoices subsequent to year-end to inspect if they were recorded in the correct period. No audit issues noted.</p> <p>We also performed substantive analytic tests over significant expenses on the Consolidated Statement of Operations.</p> <p>During the audit, and consistent with prior year, it was noted that there are security deposits that related to development projects that occurred over a decade ago were included in accounts payable and accrued liabilities. Refer to page 16 for further discussion.</p> |

Audit risks



| Professional requirements | Why is it significant? |
|---------------------------|------------------------|
|---------------------------|------------------------|

Fraud risk from management override of controls.

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

| Our response and significant findings |
|---------------------------------------|
|---------------------------------------|

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments;
- Performing a retrospective review of significant estimates; and
- Evaluating the business rationale of significant unusual transactions.

There were no significant issues noted in our testing.



Impact of COVID-19 on Audit and Financial Reporting

Reproduced from Audit Planning Report

In light of the unprecedented events related to the COVID-19 pandemic, we have separately identified incremental analysis to be undertaken by management and procedures to be performed by the audit team.

| Observations | Audit Considerations |
|---|---|
| <p>Timing regarding the year-end audit</p> | <ul style="list-style-type: none"> — Our Firm is fully paperless and poised to undertake a remote audit. We have available file share platforms to provide management and the audit team with the ability to collaborate digitally. As such, we are ready to undertake the audit when you are. — The ability for the audit to commence is highly fluid and dependent on management’s ability to physically or digitally access underlying documents in a safe and healthy manner, including access to IT systems. — Consideration of tax filing delays, or other delays in regulatory filing requirements (e.g. CRA, reporting requirements for annual financial statements) |
| <p>General considerations</p> | <ul style="list-style-type: none"> — Many organizations have been required, out of necessity, to amend the controls surrounding approval of transactions and as such segregation of duties may also have been impacted. — Audit teams will need to understand what temporary measures impact financial reporting processes in order to determine if a substantive versus controls approach can be undertaken in the current year. — As your organization has been impacted by the COVID-19 protocols, as have many of your partners, vendors, investment advisors and banking institutions. As such responses to third party confirmations may be significantly delayed. — Give ample notification to Council members and consider available platforms for digital communications (e.g. Go To Meeting, Zoom, Global meet, Skype) if there is not yet a defined end-date for social distancing and you are unable to meet in person. |
| <p>Accounts Receivable, Notes Receivable</p> | <ul style="list-style-type: none"> — Management to perform a detailed analysis of uncollectable receivable balances due from higher risk individuals and entities in the current economic circumstances. — Provisions to be estimated and audited. |

Impact of COVID-19 on Audit and Financial Reporting (continued)

Reproduced from Audit Planning Report

| Observations | Audit Considerations |
|---------------------------------|--|
| <p>Subsequent Events</p> | <p>Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial market and social dislocating impact. As such enhanced subsequent events procedures are warranted.</p> <p>There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows:</p> <ul style="list-style-type: none"> — Type 1 - Events that provide future evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures. — Type 2 - Events that are indicative of conditions that rose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made. <p>Audit response:</p> <ul style="list-style-type: none"> — Management should work with the audit team to customize language for a subsequent events note. — An assessment should be made by management for any financial implications and actions undertaken by the City should be disclosed in the notes, including a statement as to whether or not these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations, along with measurement of an estimated impact on the financial effect or indication if one is not practicable at this time. — A subsequent event note may also necessitate an Emphasis of Matters paragraph in the auditors' report. To be assessed on a case by case basis. |

Audit Response to COVID-19 Pandemic - Resources

Reproduced from Audit Planning Report

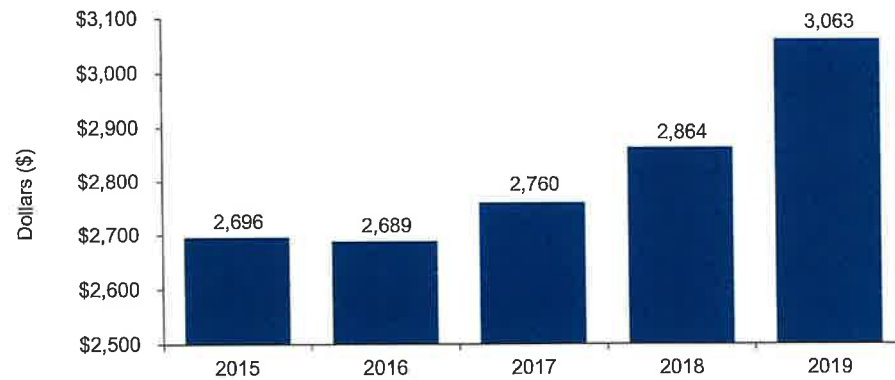
| Resources | |
|--|---|
| Resources for Management, Board and Committee members | <p>COVID-19 Alerts (Live Link)</p> <p>Please visit our COVID-19 website for resources regarding the topics below. This site is being <u>updated daily</u> based on information being released by Federal, Provincial and Municipal news releases.</p> <ul style="list-style-type: none"> — Business continuity guide — Immediate actions to take — Medium to long-term actions — Tax considerations and a summary of Federal and Provincial programs — Legal considerations — Financial reporting and audit considerations — Global perspectives |

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.

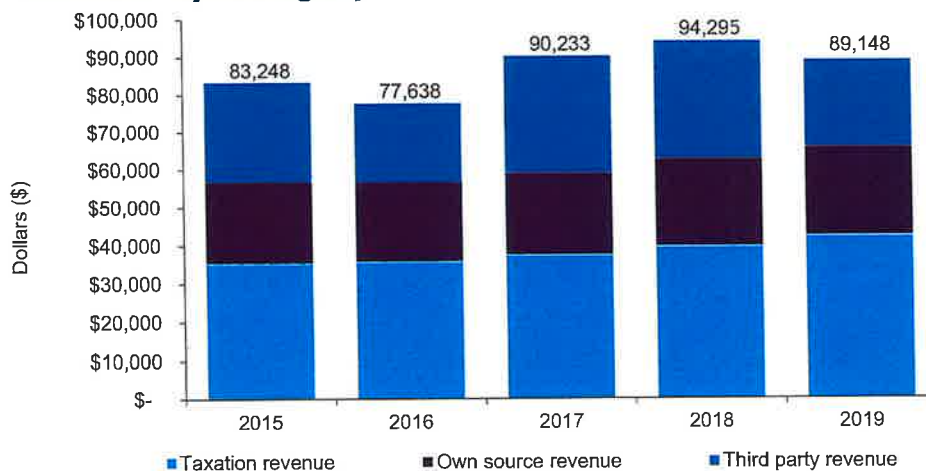
Note: the following financial information is taken from the annual audited financial statements prepared in accordance with PSAS. The accounting framework used in these financial statements differs significantly from the framework used in the rate-setting formula (financial plan) in that the rate-setting 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.

Average tax burden



The property taxes charged on an average house have increased by approximately 6.9% from 2018. The increase in property taxes charged is a result of the expected increase for the cumulative infrastructure levy plus RCMP and other operational costs, as well as increased property value assessments.

Revenue by Category



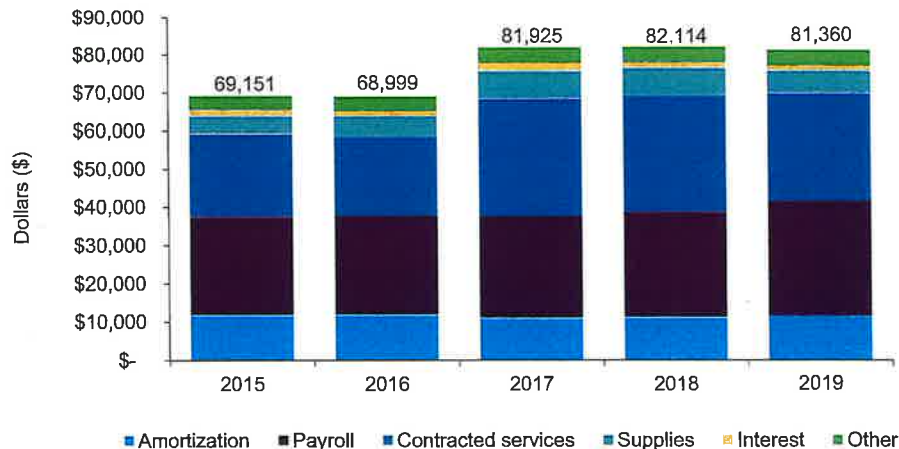
Total revenues have decreased by 5.5% from 2018 to 2019.

Taxation represents 47.5% (2018 – 41.9%) of total revenues. The increase in taxation revenue as a percentage of total revenue is mainly due to a higher percentage increase for property tax revenue compared to other sources of revenue and a decline in third party revenue.

Own source revenue represents 26.3% (2018 – 24.6%) of total revenues. The increase in own source revenue is mainly due to consistent levels of sale of services revenue compared to last year, whereas other sources of revenue decreased.

Third party revenue represents 26.2% (2018 – 33.5%) of total revenues. The decrease in third party revenue in the current year is mainly due to lower government transfers. In 2017 and 2018 the City was contracted by RDNO to build Kal Tire North multi-use facility, the associated revenues in 2017 and 2018 were approx. \$7.9m and \$6.4m respectively. Lower penalties, interest earned, and actuarial adjustments, and developer contributed assets also contributed to the decrease.

Expenses by nature

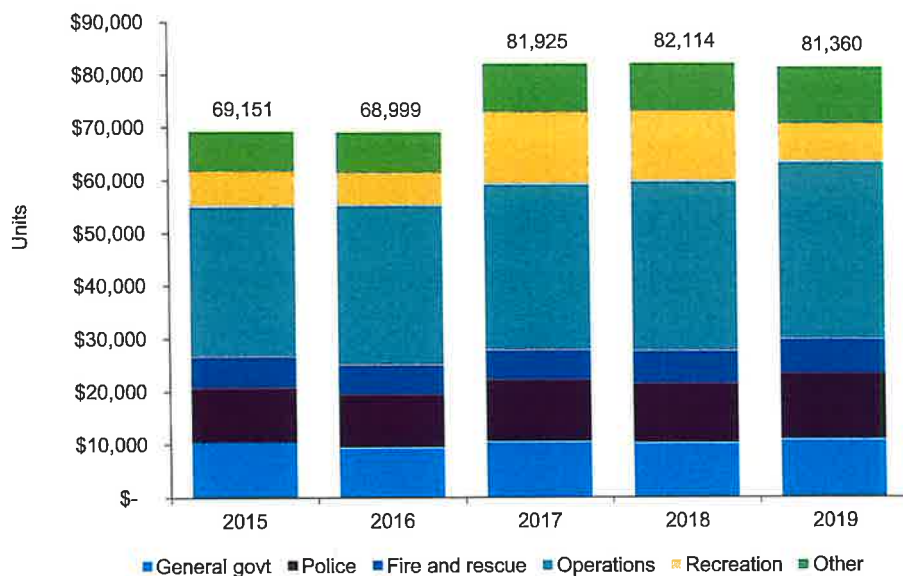


Total annual expenses have decreased 0.9% from prior year.

Payroll costs have increased 9.7% over the prior year due to increased hiring, general cost of living adjustments for union staff, as well as increases in management exempt staff wages due to an authorized CPI adjustment of 1.7% for management exempt staff compared to an increase of 2.1% in 2018. The wage increase for IAFF employees is 2.5% per year.

The increase in payroll costs mentioned above along with an increase in amortization expense of 2.6% was offset by decreases in contracted services, supplies and interest of 7.5%, 19.5% and 7.4% respectively.

Expenses by function

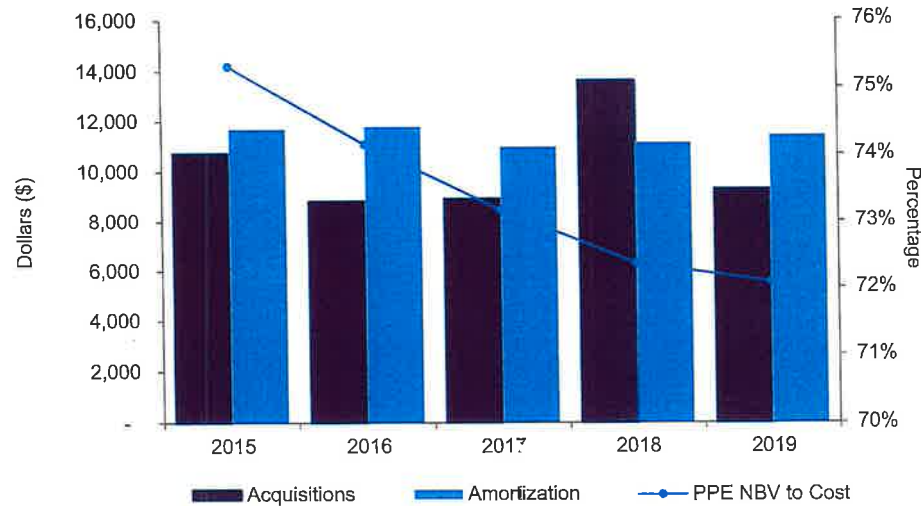


Policing costs have increased 10.7% over the prior year as a result of more staff hired, vehicles needing replacement and maintenance, and extra training provided.

Recreation has decreased 45.7% from the prior year, but is now back in line with 2015-2016 levels of spending. The increase in costs during 2017 and 2018 were due to the expansion of the Kal Tire North multi-use facility, these were paid for by higher government transfers as shown in the Revenue by category section on the previous page.

Other increases include general government, fire rescue and operations at 7.0%, 6.0% and 4.3% respectively.

TCA Reinvestment

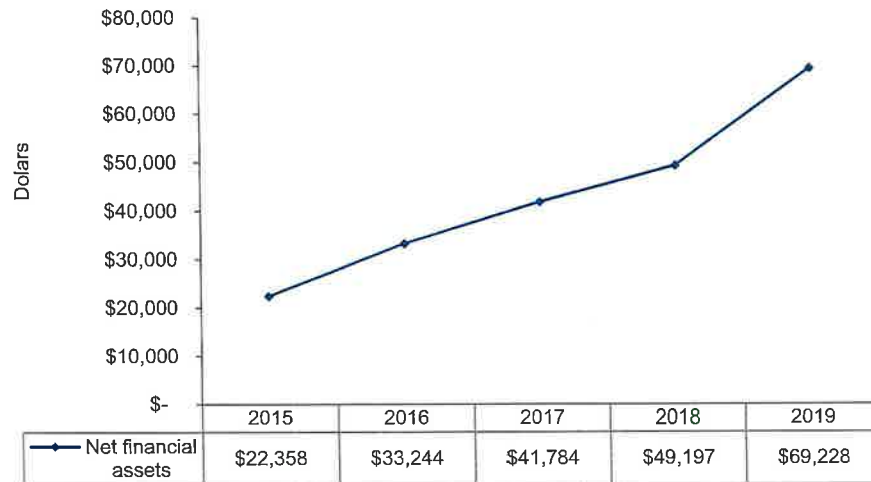


Consistent with most Canadian municipalities, asset and infrastructure reinvestment planning should continue to be a priority for the City: the tangible capital asset (“TCA”) net book value to cost ratio is relatively consistent with last year at 72.1% (2018 – 72.4%) indicating new infrastructure is replacing older infrastructure.

In 2019, it was noted that the City invested \$9.3M in capital projects compared to \$13.6M in 2018, indicating that the City is continuing to respond to aging infrastructure. However, current year additions were lower than current year amortization expense of \$11.4M by \$2.1M.

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.

Net financial assets



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

Net financial assets have increased by \$46.9M since 2015, \$20.0M represents the increase since the prior year. The net financial assets represent an accumulation of financial assets / unspent revenues available to the City to invest in future opportunities.

Despite increased spending on protective services, decreased overall revenues over the prior year, the increase in net financial assets is primarily due to the \$12M cash inflow from the FortisBC lease buyout.

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

Significant accounting policies and practices

The following items relate to the qualitative aspects of accounting practices of the City:



Significant accounting policies

- There were no changes to the critical accounting policies and practices.
- There were no changes in significant accounting policies.
- The City has appropriately implemented the new accounting standards for Restructuring Transactions.
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the timing of the City's transactions in relation to the period in which they are recorded.
- There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
- There were no issues noted with the extent to which the financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transitions.



Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates other than immaterial differences for sick leave and amortization of asphalt overlays.
- There were no issues noted with management's process for making accounting estimates.
- There were no indicators of possible management bias.
- There were no significant factors affecting the City's asset and liability carrying values.



Significant disclosures

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

Control observations



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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated 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 in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies 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.

In accordance with professional standards, we are required to communicate to Council any control deficiencies that we identified during the audit and have determined to be material weaknesses or significant deficiencies in internal control over financial reporting. No significant deficiencies have been identified.

Other control deficiencies may be identified during the audit that do not rise to the level of material weakness or significant deficiency. We have previously communicated to management other control deficiencies identified during the audit. Refer to pages 15 to 17 for other matters and page 20 for performance improvement observations.

Other matters

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

| Matter | KPMG comments |
|---|--|
| <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>We 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 standard.</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.</p> <p>KPMG noted in the prior year through review of the 2018 Annual Report issued by Associated Engineering that the property line for the Hesperia lands encroached onto adjacent Crown land property to the east of the landfill that is currently leased by the City for the purposes of spray irrigation. The City has submitted a request to the Ministry of Environment and Climate Change Strategy (ENV) for a Nominal Rent Tenure lease to accommodate the encroachment as well as future expansion of the landfill site, however as of the date of this report this application has not been approved. As a result of the property line adjustment, the total area available for the Hesperia Landfill is in question, and as such could result in an adjustment to the estimated capacity of the landfill.</p> <p>The updated Operations and Closure Plan Report is not anticipated to be completed prior to the end of the fiscal 2020 year. As a result, the calculations of the closure, and post-closure liability are calculated on the existing Operations and Closure Plan Report as issued by Golder and Associates in 2016.</p> <p>Refer to Note 1(i) of the City's consolidated financial statements regarding measurement uncertainty related to the closure and post-closure liabilities.</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 |
|---|---|
| Capitalization thresholds and amortization | <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.</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 \$157k (2018 - \$163k). 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> |
| Asset amortization policies | <p>During fiscal 2013, the City changed certain amortization policies and adopted new amortization policies with respect to tangible capital assets. To date, these 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 \$232k (2018 – \$162k).</p> |
| Developer security deposits | <p>In the prior year KPMG identified \$366k of developer security deposits from pre-2005, excluding deposits in the Tempest system, at December 31, 2019 during accounts payable testing over holdbacks. These developer security deposits relate to amounts paid by developers to cover off-site servicing, security deposits, and other costs. The security is required in case the developer is unable to complete the project. In the situation that the developer is unable to complete the project, the City of Vernon would be responsible for completing the off-site servicing.</p> <p>Per review of transactions, there are many security deposits that relate to development projects that occurred over a decade ago. One example of how a security deposit would be released for a development project is for the developer to communicate that the project is substantially complete with the City's planning department. The planning department and the City's engineers verify the substantial completion assessment, and upon approval of the substantial completion, the developer requests the release of these security deposits. KPMG notes that a legal liability does in fact exist on these items due to the fact that the funds have not been released and the developer is still bound by the substantial completion sign-off. However, KPMG identified that the likelihood of an economic outflow is uncertain and there may be off-site servicing that the City may need to complete. KPMG recommends that finance and planning/engineering departments review the old security deposits to determine if the development project has been completed and if the City is no longer bound to a liability.</p> |

| Matter | KPMG comments |
|---------------------------------|--|
| <p>Sick Time Accrual</p> | <p>The City's liabilities includes an accrual of approximately \$3.8M for sick time which has been earned including expected payouts. About \$2.3M of the accrual relates to 76 members of the management exempt employee category.</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 on retirement 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 based on historical evidence which assumes that approximately 11 of 40 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 if it is not used. In our view, the accrual for this employee category is overstated by \$230,000 and, accordingly, have included an audit difference with respect to this liability (see page 20).</p> <p>We recommend that management updates the assumptions in the calculation based on additional information since the original estimate.</p> |

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We highlight the following adjustments to financial statement disclosure:

| | |
|---|---|
| Form, arrangement, and content of the financial statements | Adequate, although enhancements recommended to management. The recommended enhancements have been reflected in the consolidated financial statements. |
| Application of accounting pronouncements issued but not yet effective | No concerns at this time regarding future implementation. |

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 Mayor and Council that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

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.

We would like to take the opportunity to discuss with you the basis for concluding that the differences are not material to the financial statements, including quantitative and qualitative considerations. A summary of the uncorrected differences is noted on the following page.

Differences

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

| As at and year ended December 31, 2019 | Income effect ('000's) | Financial position ('000s) | | |
|---|---------------------------|----------------------------------|---------------------------------------|-----------------------------------|
| | | Assets (Decrease) Increase | Liabilities (Decrease) Increase | Surplus (Decrease) Increase |
| Description of differences greater than \$60,000 individually | | | | |
| To record judgmental difference in sick time accrual for management/exempt staff (2018 - \$220) | 10 | - | (230) | 220 |
| To record effect of amortization on assets in work-in-progress that are available for use (2018 - \$52) | (62) | (134) | - | (72) |
| To record understatement of amortization on asphalt overlays (2018 - \$161) | (232) | (809) | - | (577) |
| To record effect of amortization taken from point of use (2018 - \$163) | 157 | 157 | - | - |
| To record roll forward impact of equipment expensed below internal capitalization thresholds | (90) | 254 | - | 344 |
| Total differences | (217) | (532) | (230) | (85) |

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>Tangible capital assets</p> | <p><u>Carried over from previous years</u> 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>The Engineering department is a key department that the Finance Team is reliant on for a timely year-end close process.</p> <p><u>Current year update</u> 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> 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. In order for a potential new software investment to be worthwhile, relevant and timely information is required. The first step, prior to investment in new software, is encouraged to be the development of a process handbook related to Tangible Capital Assets as described above.</p> <p>In addition, we continue to recommend the development of policy and process handbooks, in particular related to Tangible Capital Assets, with clearly defined roles and expectations for all departments involved that have a financial reporting impact.</p> |

Appendices



Appendix 1: Required communications



Appendix 2: Audit Quality and Risk Management



Appendix 3: Management representation letter



Appendix 4: Other information



Appendix 5: British Columbia Municipality TCA Benchmarking

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.

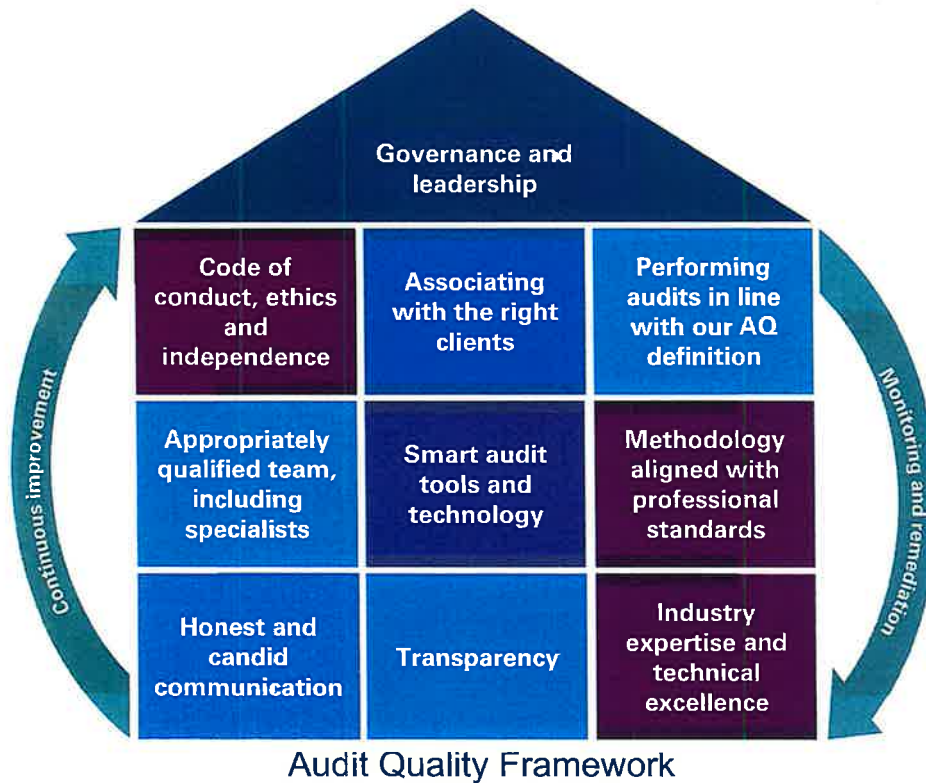
These include:

| | |
|--|--|
| <p>Auditor’s report</p> | <p>Management representation letter</p> |
| <p>The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements</p> | <p>In accordance with professional standards, a copy of the management representation letter are provided to the Council in Appendix 3.</p> |
| <p>Annual independence</p> | <p>Audit quality</p> |
| <p>We are independent of the City and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services.</p> | <p>Audit Quality (AQ) is at the core of everything we do at KPMG. Appendix 2 provides more information on AQ.</p> <p>The following links are external audit quality reports for referral by the Council:</p> <ul style="list-style-type: none"> • <u>CPAB Audit Quality Insights Report (October 2019) (formerly the “Big Four Firm Public Report”)</u> |

Appendix 2: 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 summarizes the key elements of our quality control system.



What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our [Audit Quality Resources page](#) for more information including access to our [Audit Quality and Transparency report](#).

Appendix 3: Management representation letter

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

May 11, 2020

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 Corporation of the City of Vernon ("the City") as at and for the period ended December 31, 2019.

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 out in the professional services agreement issued on December 1, 2016:
 - 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 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 will be appropriately authorized and actual expenditures will not exceed budgeted expenditures detailed in the budget bylaw.

26 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

27 All transfers out of statutory reserves have been approved by bylaw except for those transfers which are allowed by Council resolution.

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

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

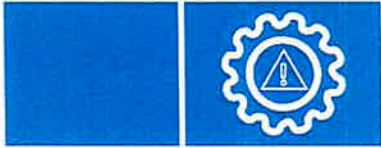
Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

| As at and year ended December 31, 2019 | Income effect ('000's) | Financial position ('000s) | | |
|---|------------------------|----------------------------|---------------------|---------------------|
| | | Assets | Liabilities | Surplus |
| | (Decrease) Increase | (Decrease) Increase | (Decrease) Increase | (Decrease) Increase |
| Description of differences greater than \$60,000 individually | | | | |
| To record judgmental difference in sick time accrual for management/exempt staff (2018 - \$220) | 10 | - | (230) | 220 |
| To record effect of amortization on assets in work-in-progress that are available for use (2018 - \$52) | (62) | (134) | - | (72) |
| To record under-statement of amortization on asphalt overlays (2018 - \$161) | (232) | (809) | - | (577) |
| To record effect of amortization taken from point of use (2018 - \$163) | 157 | 157 | - | - |
| To record roll forward impact of equipment expensed below internal capitalization thresholds | (90) | 254 | - | 344 |
| Total differences | (217) | (532) | (230) | (85) |

Appendix 4: Other information



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 5: British Columbia Municipality TCA Benchmarking

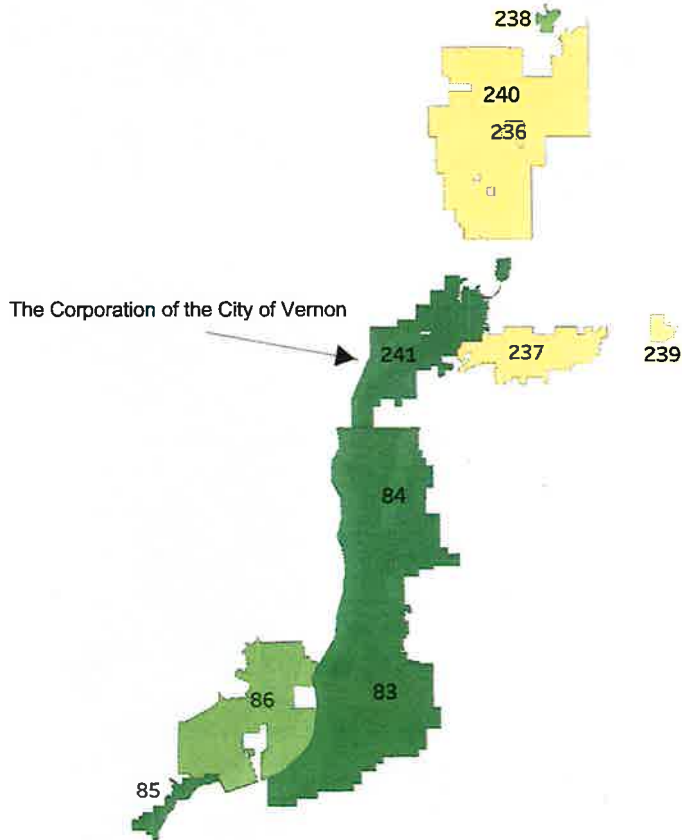
British Columbia Municipality TCA Benchmarking



Tangible Capital Assets per Capita - 2018

Regional District
Multiple values

Population Range
All



Municipality

| | |
|-----|---|
| 83 | City of Kelowna |
| 84 | District of Lake Country |
| 85 | Corporation of the District of Peachland |
| 86 | District of West Kelowna |
| 236 | City of Armstrong |
| 237 | The Corporation of the District of Coldstream |
| 238 | The Corporation of the City of Enderby |
| 239 | The Corporation of the Village of Lumby |
| 240 | The Corporation of the Township of Spallumcheen |
| 241 | The Corporation of the City of Vernon |

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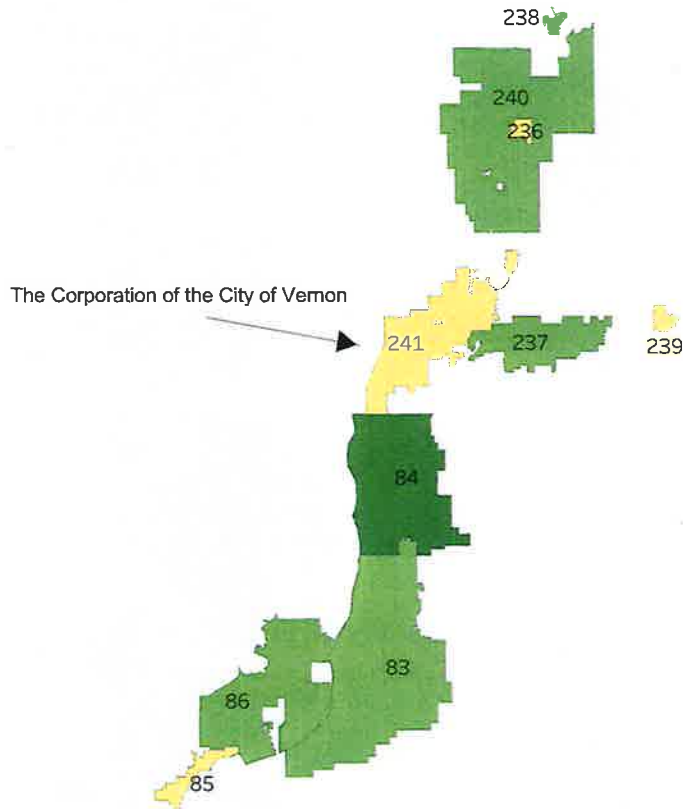
British Columbia Municipality TCA Benchmarking



Additions per Capita - 2018

Regional District
Multiple values

Population Range
All



Municipality

| | |
|-----|---|
| 83 | City of Kelowna |
| 84 | District of Lake Country |
| 85 | Corporation of the District of Peachland |
| 86 | District of West Kelowna |
| 236 | City of Armstrong |
| 237 | The Corporation of the District of Coldstream |
| 238 | The Corporation of the City of Enderby |
| 239 | The Corporation of the Village of Lumby |
| 240 | The Corporation of the Township of Spallumcheen |
| 241 | The Corporation of the City of Vernon |

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British Columbia Municipality TCA Benchmarking



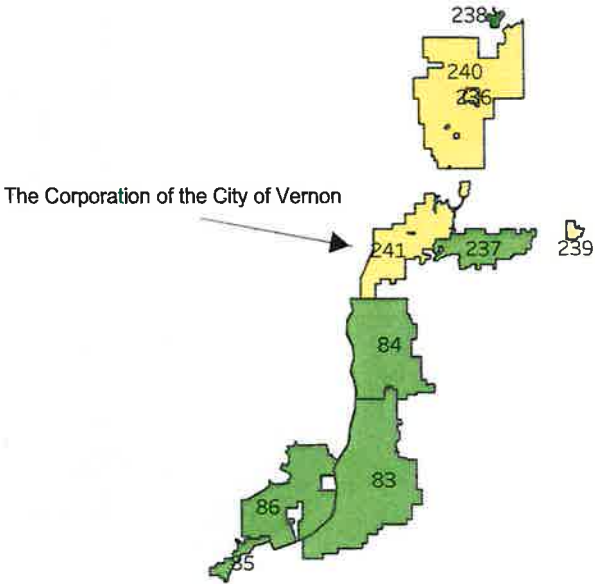
Debt to Tangible Capital Assets - 2018

Regional District
Multiple values

Population Range
All

Municipality

- 83 City of Kelowna
- 84 District of Lake Country
- 85 Corporation of the District of Peachland
- 86 District of West Kelowna
- 236 City of Armstrong
- 237 The Corporation of the District of Coldstream
- 238 The Corporation of the City of Enderby
- 239 The Corporation of the Village of Lumby
- 240 The Corporation of the Township of Spallumcheen
- 241 The Corporation of the City of Vernon



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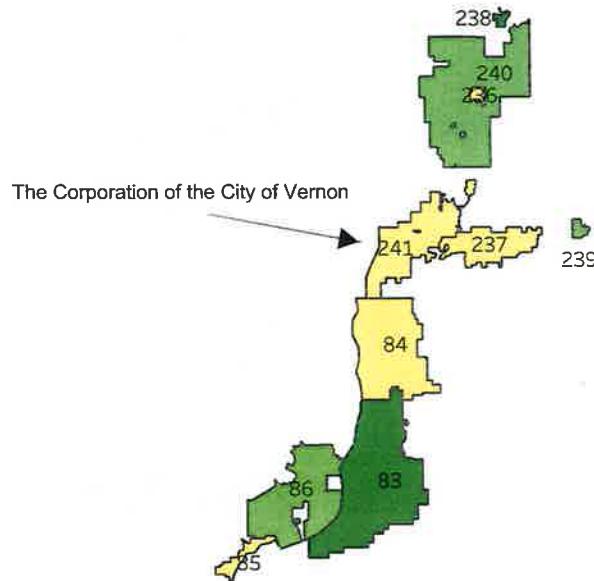
British Columbia Municipality TCA Benchmarking



Amortization per Capita - 2018

Regional District
Multiple values

Population Range
All



Municipality

- 83 City of Kelowna
- 84 District of Lake Country
- 85 Corporation of the District of Peachland
- 86 District of West Kelowna
- 236 City of Armstrong
- 237 The Corporation of the District of Coldstream
- 238 The Corporation of the City of Enderby
- 239 The Corporation of the Village of Lumby
- 240 The Corporation of the Township of Spallumcheen
- 241 The Corporation of the City of Vernon

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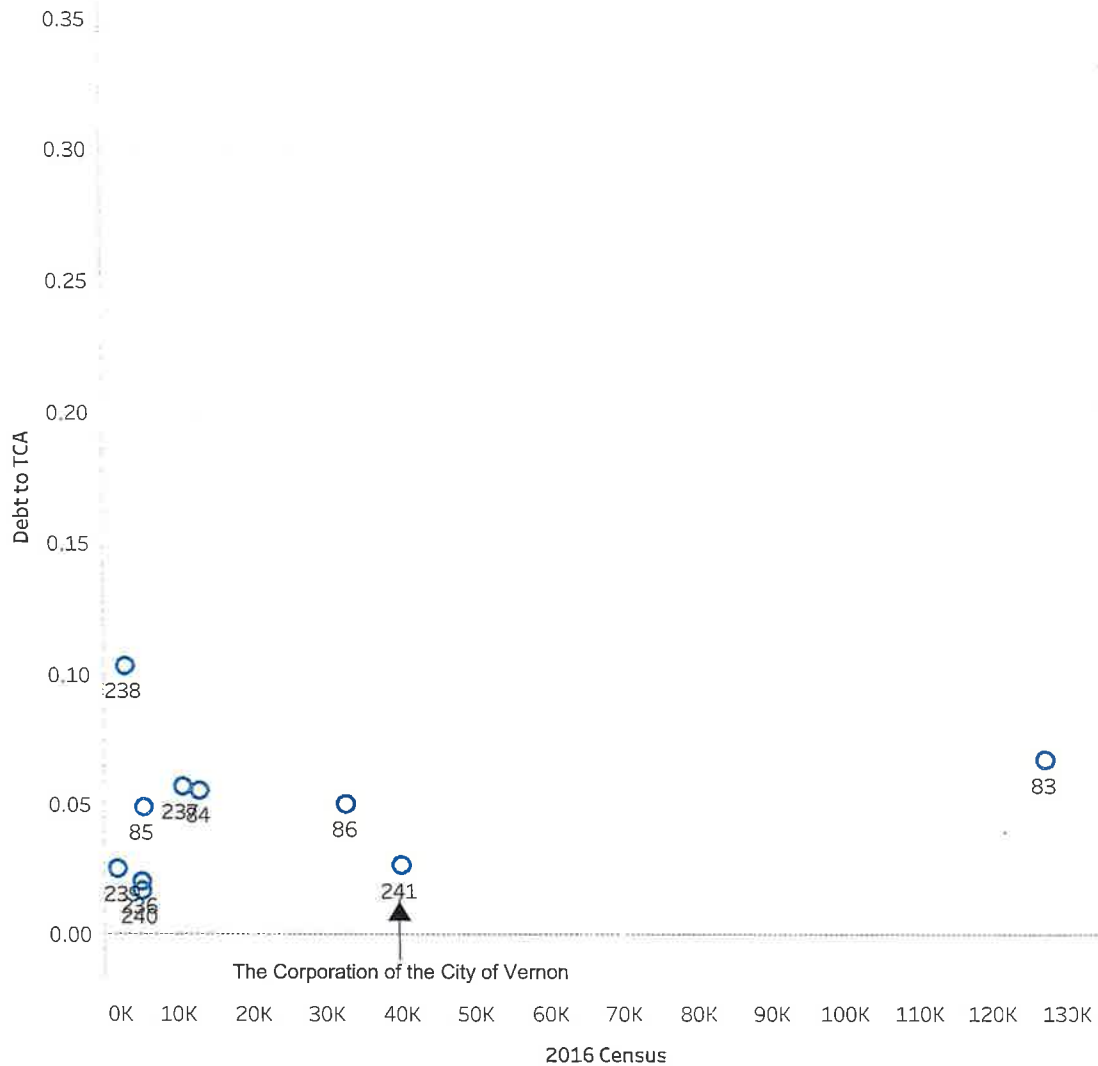


British Columbia Municipality TCA Benchmarking



Debt to Tangible Capital Assets per Capita - 2018

Regional District
Multiple values
Population Range
All

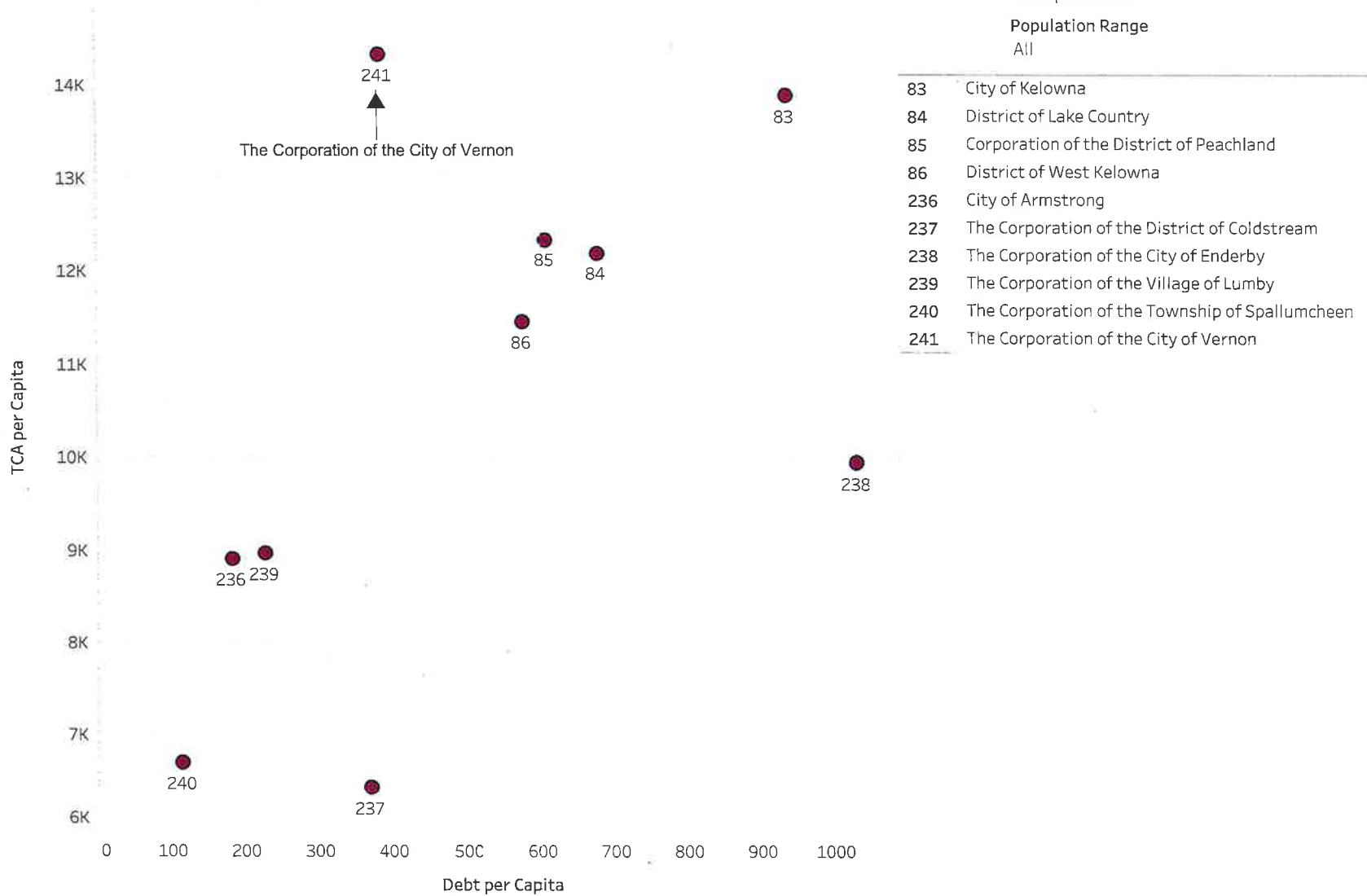


- 83 City of Kelowna
- 84 District of Lake Country
- 85 Corporation of the District of Peachland
- 86 District of West Kelowna
- 236 City of Armstrong
- 237 The Corporation of the District of Coldstream
- 238 The Corporation of the City of Enderby
- 239 The Corporation of the Village of Lumby
- 240 The Corporation of the Township of Spallumcheen
- 241 The Corporation of the City of Vernon

British Columbia Municipality TCA Benchmarking



Tangible Capital Assets per Capita to Debt per Capita - 2018



Regional District
Multiple values

Population Range
All

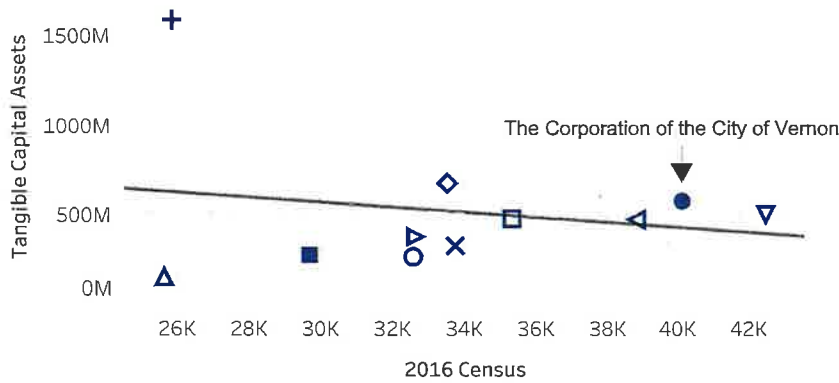
- 83 City of Kelowna
- 84 District of Lake Country
- 85 Corporation of the District of Peachland
- 86 District of West Kelowna
- 236 City of Armstrong
- 237 The Corporation of the District of Coldstream
- 238 The Corporation of the City of Enderby
- 239 The Corporation of the Village of Lumby
- 240 The Corporation of the Township of Spallumcheen
- 241 The Corporation of the City of Vernon

British Columbia Municipality TCA Benchmarking

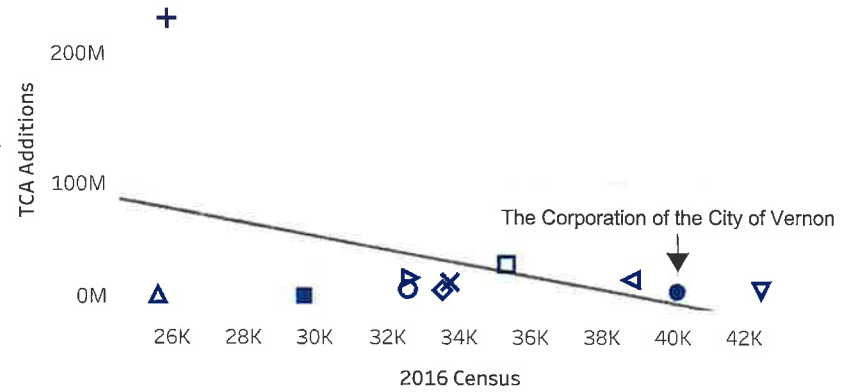


Regional District All
Population Range 25,000-49,999

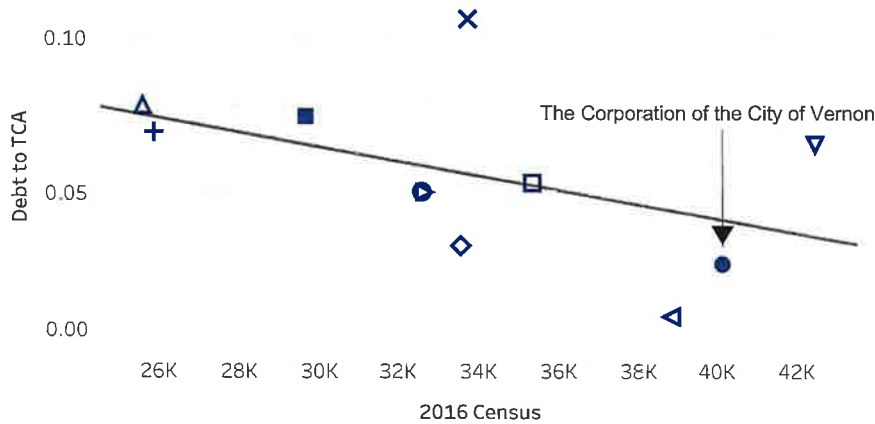
Tangible Capital Assets per Capita



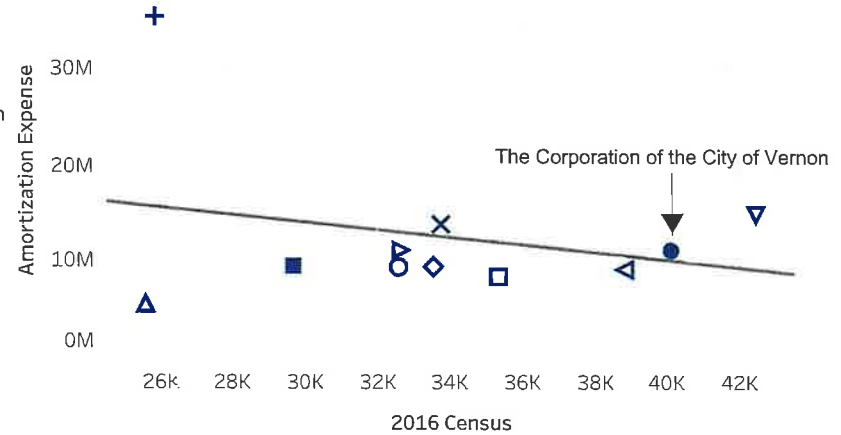
Additions per Capita



Debt to Tangible Capital Assets per Capita



Amortization per Capita



Municipality

- City of Campbell River
- City of Langford
- + City of Langley
- × City of Penticton

- ◇ City of Port Moody
- △ Corporation of the City of Courtenay
- ▽ District: Municipality of West Vancouver
- ◁ District: of Mission

- ▷ District of West Kelowna
- The Corporation of the City of Vernon
- The Corporation of the District of North Cowichan

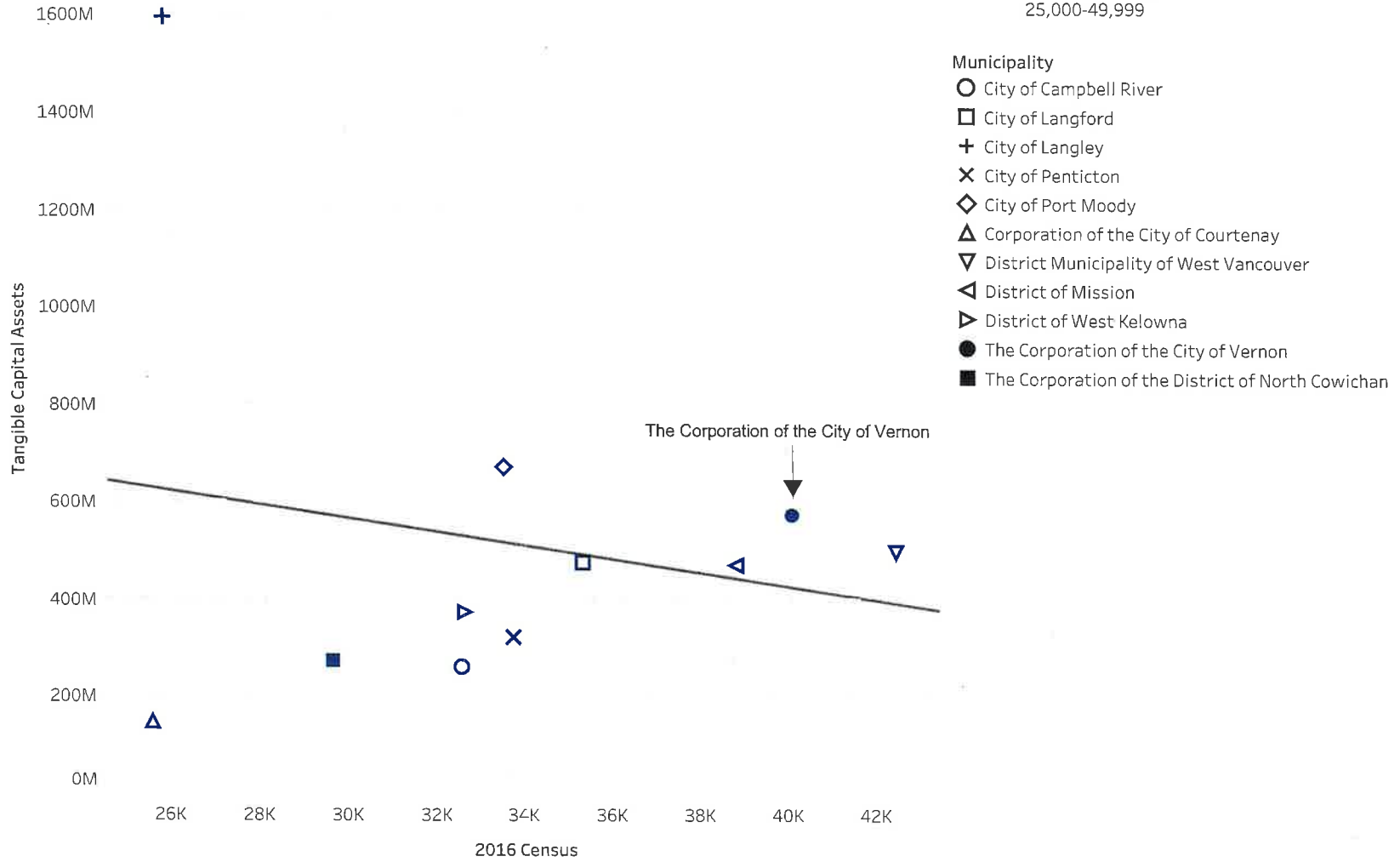
British Columbia Municipality TCA Benchmarking



Tangible Capital Assets per Capita - 2018

Regional District
All

Population Range
25,000-49,999

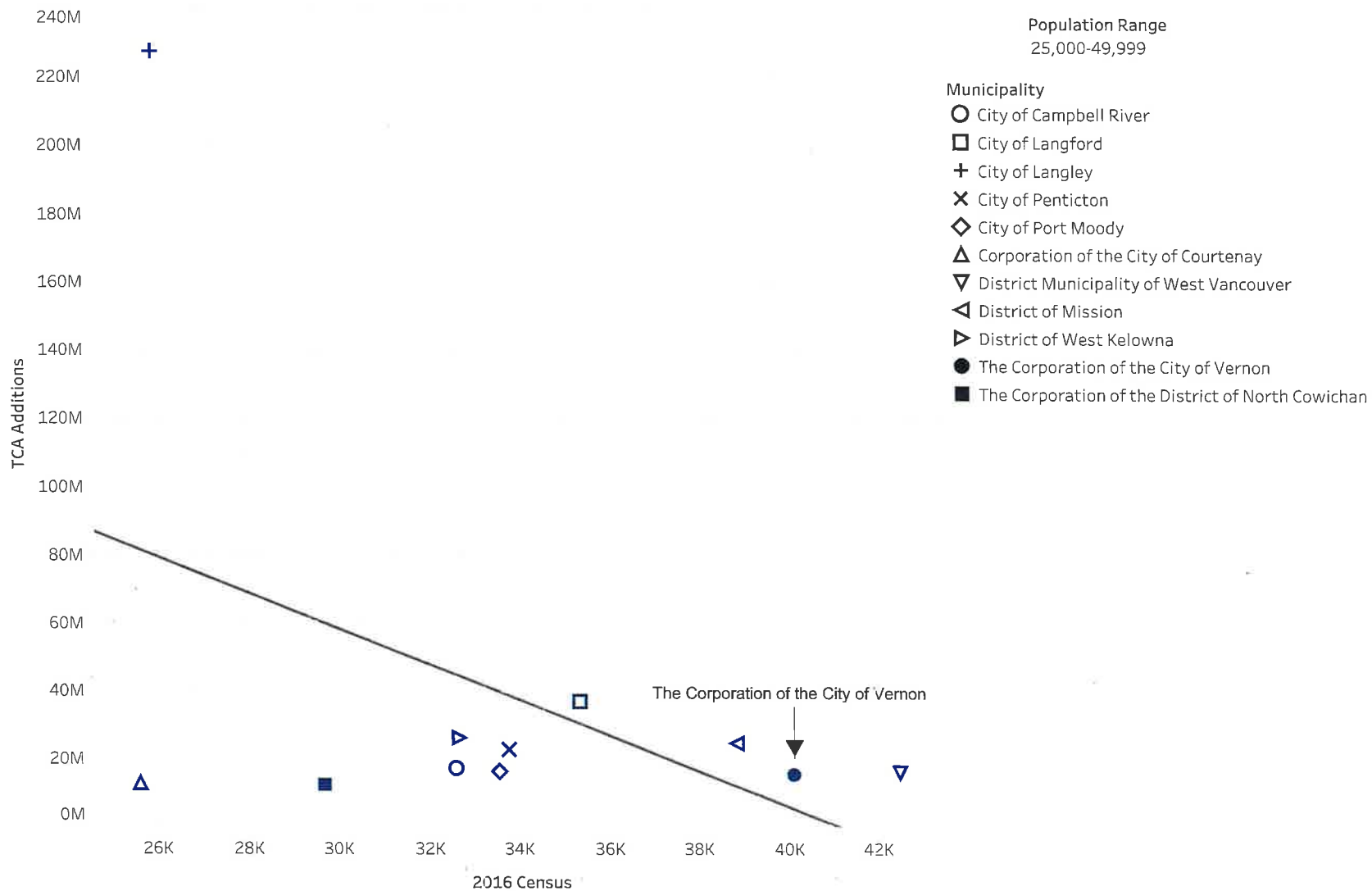


British Columbia Municipality TCA Benchmarking



Additions per Capita - 2018

Regional District
All
Population Range
25,000-49,999



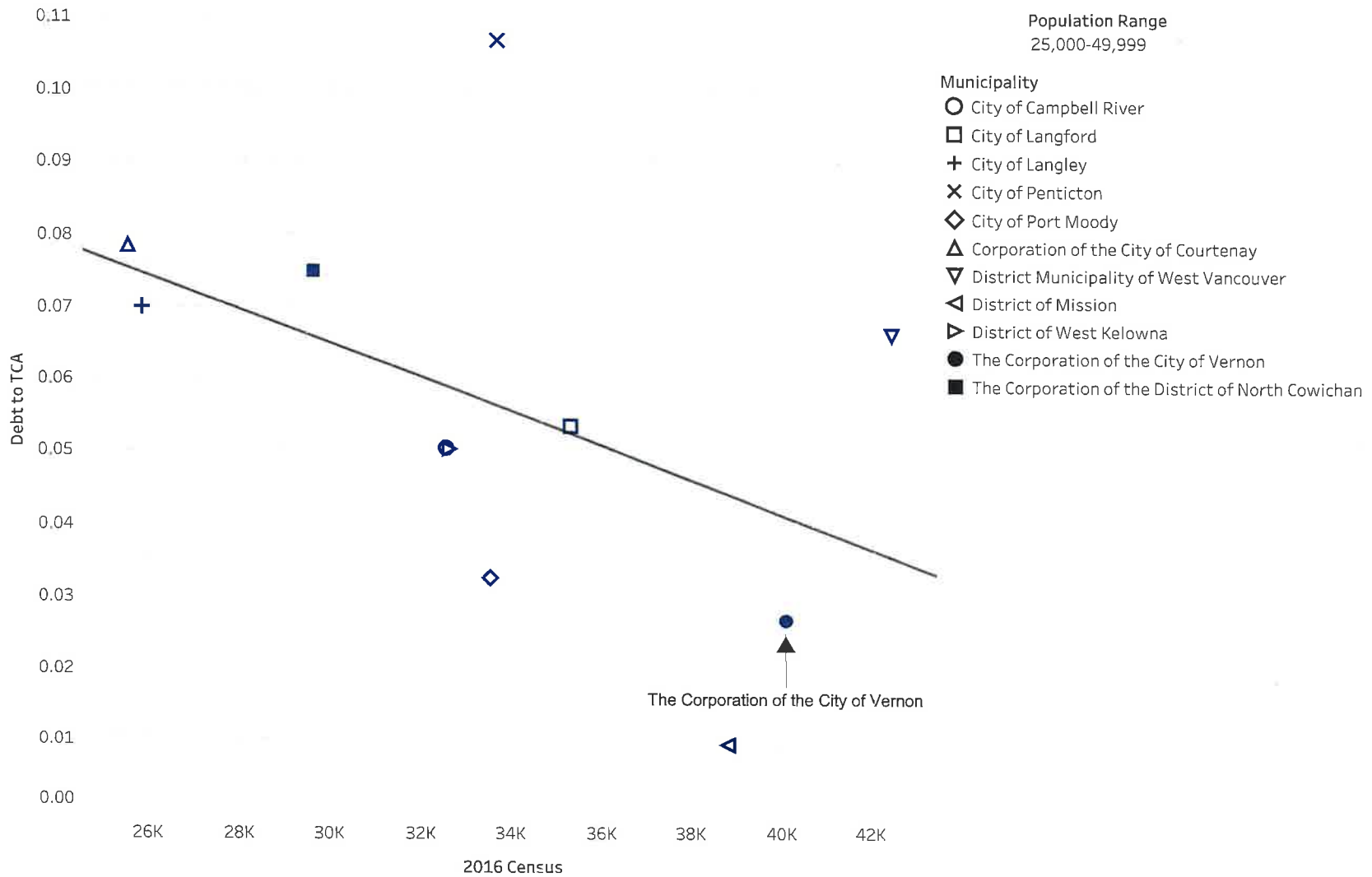
British Columbia Municipality TCA Benchmarking



Debt to Tangible Capital Assets per Capita - 2018

Regional District
All

Population Range
25,000-49,999



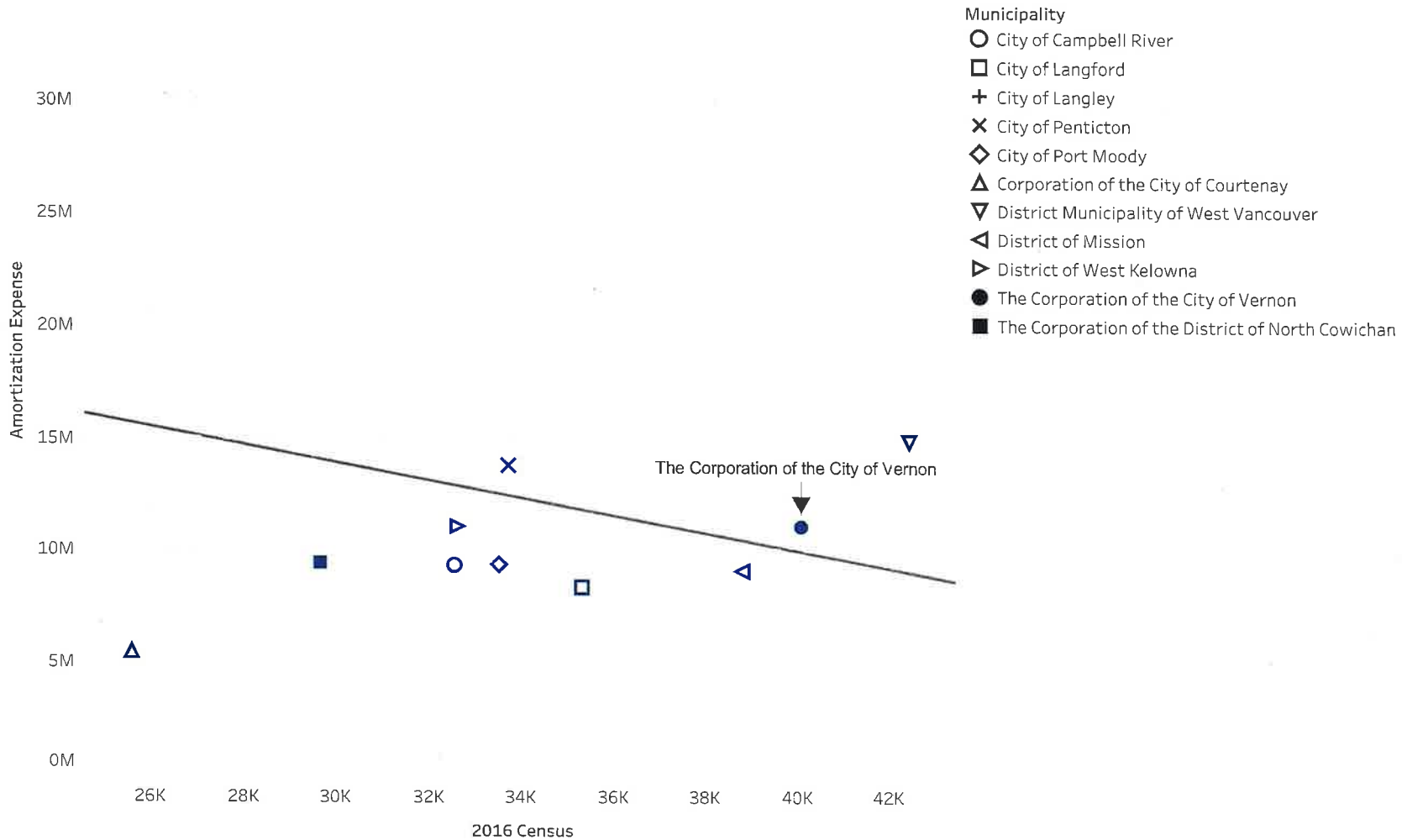
British Columbia Municipality TCA Benchmarking



Amortization per Capita - 2018

Regional District
All

Population Range
25,000-49,999





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