

THE CORPORATION OF THE DISTRICT OF OAK BAY

Financial Statements

Year Ended December 31, 2018

Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of The Corporation of the District of Oak Bay (the "District") are the responsibility of management and have been prepared in compliance with legislation, and in accordance with public sector accounting principles established by the Chartered Professional Accountants of Canada. 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 District'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 District. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the District's financial statements.



Director of Financial Services



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Councillors of the Corporation of the District of Oak Bay

Opinion

We have audited the financial statements of the Corporation of the District of Oak Bay (the "District"), which comprise:

- the statement of financial position as at end of December 31, 2018
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the District as at December 31, 2018 and its results of operations, its changes in net financial assets 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 District in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our 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 District'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 District or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the District'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 District'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 District'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 District 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

Victoria, Canada
May 6, 2019

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash and cash equivalents	\$ 2,652,819	\$ 1,353,569
Investments (note 2)	51,403,532	45,140,151
Taxes receivable	637,077	519,732
Other accounts receivable	3,078,580	1,657,789
	<hr/> 57,772,008	<hr/> 48,671,241
Financial liabilities:		
Accounts payable and accrued liabilities	3,090,837	3,742,329
Deposits	6,524,766	2,612,421
Prepaid property taxes	1,678,708	1,646,374
Deferred revenue (note 3)	8,655,804	8,065,342
Employee future benefit obligations (note 4)	1,691,000	1,723,600
Long-term debt (note 5)	1,743,524	2,135,845
	<hr/> 23,384,639	<hr/> 19,925,911
Net financial assets	<hr/> 34,387,369	<hr/> 28,745,330
Non-financial assets:		
Tangible capital assets (note 6)	60,049,180	57,557,482
Inventory of supplies	413,656	488,376
Prepaid expenses	344,156	480,410
	<hr/> 60,806,992	<hr/> 58,526,268
Accumulated surplus (note 7)	<hr/> \$ 95,194,361	<hr/> \$ 87,271,598

Commitments and contingent liabilities (note 9)

See accompanying notes to financial statements.



Director of Financial Services

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Operations and Accumulated Surplus

Year ended December 31, 2018, with comparative information for 2017

	Financial plan (note 12)	2018	2017
Revenue:			
Taxation, net (note 8)	\$ 24,826,858	\$ 24,839,998	\$ 23,645,360
Sales and services	8,134,508	8,694,983	8,114,756
Other revenues	1,489,346	1,433,026	1,595,549
Government transfers	2,951,629	3,055,808	1,969,532
Investment income	140,000	883,831	483,431
Sales of water and sewer charges	6,933,001	6,720,534	6,181,453
Total revenue	44,475,342	45,628,180	41,990,081
Expenses:			
General government	4,511,844	4,193,014	4,833,341
Protective services	10,018,110	9,689,062	9,636,020
Transportation services	3,001,753	3,420,380	3,488,834
Environmental health	1,281,118	1,331,146	1,323,748
Recreation services	12,209,437	12,882,945	12,462,905
Water utility	3,023,747	3,253,596	3,120,586
Sewer collection system	2,555,302	2,935,274	2,538,575
Total expenses	36,601,311	37,705,417	37,404,009
Annual surplus	7,874,031	7,922,763	4,586,072
Accumulated surplus, beginning of year	87,271,598	87,271,598	82,685,526
Accumulated surplus, end of year	\$ 95,145,629	\$ 95,194,361	\$ 87,271,598

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Change in Net Financial Assets

Year ended December 31, 2018, with comparative information for 2017

	Financial Plan (note 12)	2018	2017
Annual surplus	\$ 7,874,031	\$ 7,922,763	\$ 4,586,072
Acquisition of tangible capital assets	(7,652,109)	(4,736,422)	(3,277,359)
Amortization of tangible capital assets	-	2,191,509	2,372,406
Loss on disposal of tangible capital assets	-	49,215	22,950
Proceeds on disposal of tangible capital assets	-	4,000	42,685
	(7,652,109)	(2,491,698)	(839,318)
Use of inventory of supplies	-	74,720	21,887
Use of prepaid expenses	-	136,254	31,914
	-	210,974	53,801
Change in net financial assets	221,922	5,642,039	3,800,555
Net financial assets, beginning of year	28,745,330	28,745,330	24,944,775
Net financial assets, end of year	\$ 28,967,252	\$ 34,387,369	\$ 28,745,330

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 7,922,763	\$ 4,586,072
Items not involving cash:		
Amortization of tangible capital assets	2,191,509	2,372,406
Loss on disposal of tangible capital assets	49,215	22,950
Actuarial adjustment on debt	(139,732)	(126,288)
Changes in non-cash operating assets and liabilities:		
Taxes receivable	(117,345)	(83,028)
Other accounts receivable	(1,420,791)	(43,048)
Accounts payable and accrued liabilities	(651,492)	1,356,232
Deposits	3,912,345	285,921
Prepaid property taxes	32,334	(8,572)
Deferred revenue	590,462	542,855
Employee future benefit obligations	(32,600)	8,400
Inventory of supplies	74,720	21,887
Prepaid expenses	136,254	31,914
	12,547,641	8,967,701
Capital activities:		
Acquisition of tangible capital assets	(4,736,422)	(3,277,359)
Proceeds on disposal of tangible capital assets	4,000	42,685
	(4,732,422)	(3,234,674)
Investing activities:		
Investments	(6,263,381)	(5,852,895)
Financing activities:		
Long-term debt repaid	(252,589)	(261,677)
Increase (decrease) in cash and cash equivalents	1,299,249	(381,545)
Cash and cash equivalents, beginning of year	1,353,569	1,735,114
Cash and cash equivalents, end of year	\$ 2,652,819	\$ 1,353,569

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

The Corporation of the District of Oak Bay (the "District") was incorporated on July 2, 1906 under the Municipal Act, a statute of the Province of British Columbia. Its principal activities are the provision of local government services to residents of the incorporated area. These include administrative, protective, transportation, environmental, recreational, water, sewer and fiscal services.

1. Significant accounting policies:

The financial statements of the District are prepared by management in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the District are as follows:

(a) Reporting entity:

The financial statements include a combination of all the assets, liabilities, accumulated surplus, revenues and expenses of all of the District's activities and funds. Inter-departmental balances and organizational transactions have been eliminated.

(i) Consolidated entities:

The District does not control any significant external entities and accordingly no entities have been consolidated with the financial statements.

(ii) Funds held in trust:

The financial statements exclude trust assets that are administered for the benefit of external parties (note 11).

(b) Basis of accounting:

The District follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Cash and cash equivalents:

Cash and cash equivalents are defined as cash on hand, demand deposits, and short-term highly liquid investments with a maturity date of less than 3 months at acquisition that are readily converted to known amounts of cash and which are subject to an insignificant risk of change in value.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies: (continued)

(d) Investments:

Investments are recorded at cost. Investments in the Municipal Finance Authority of British Columbia ("MFA") Bond, Intermediate and Money Market Funds are recorded at cost plus earnings reinvested in the funds.

(e) Government transfers:

Government transfers are recognized in the financial statements as revenue in the period the transfers are authorized and any eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government. Transfers received which meet the definition of a liability are included in deferred revenue.

(f) Deferred revenue:

Deferred revenue includes grants, contributions and other amounts received from third parties pursuant to legislation, regulation and agreement which may only be used in certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed, or the tangible capital assets are acquired.

(g) Property tax revenue:

Property tax revenue is recognized on the accrual basis using the approved mill rates and the anticipated assessment related to the current year.

(h) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on deferred revenue is added to the investment and forms part of the deferred revenue balance.

(i) Long-term debt:

Long-term debt is recorded net of related principal repayments and actuarial adjustments.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies: (continued)

(j) Employee future benefits:

The District and its employees make contributions to the Municipal Pension Plan. These contributions are expensed as incurred.

Sick leave and other retirement benefits are also available to the District's employees. The costs of these benefits are actuarially 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 the future benefits.

(k) Non-financial capital assets:

Non financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Land improvements	15 - 50
Building and building improvements	25 - 100
Machinery and equipment	3 - 30
IT equipment	5 - 8
Vehicles	10 - 20
Roads and drainage	25 - 100

Amortization is charged annually, including in the year of acquisition and disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the District's ability to provide goods and services, or when the value of the future economic benefits associated with the asset are less than the book value of the asset.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies: (continued)

(k) Non-financial capital assets: (continued)

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

(iv) Interest capitalization:

The District does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(vi) Inventories of supplies:

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

(l) Liability for contaminated sites:

Contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met:

- (i) an environmental standard exists
- (ii) contamination exceeds the environmental standard
- (iii) the District is directly responsible or accepts responsibility for the liability
- (iv) future economic benefits will be given up, and

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies: (continued)

- (l) Liability for contaminated sites: (continued)
 - (v) a reasonable estimate of the liability can be made.
- (m) Use of estimates:

The preparation of financial statements in conformity with public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets, estimating provisions for accrued liabilities and in performing actuarial valuations of employee future benefits. Actual results could differ from these estimates.

2. Investments:

	2018	2017
MFA Money Market Fund	\$41,274,976	\$35,200,459
MFA Bond Fund	228,624	224,670
MFA Intermediate Fund	9,899,932	9,715,022
	<u>\$51,403,532</u>	<u>\$45,140,151</u>

The fair value of the Funds approximates the recorded value.

3. Deferred revenue:

Deferred revenue, reported on the statement of financial position, is made up of the following:

	2018	2017
Gas Tax Agreement Funds balance	\$ 6,106,315	\$ 6,001,315
Unearned revenues	2,549,489	2,064,028
Total deferred revenue	<u>\$ 8,655,804</u>	<u>\$ 8,065,343</u>

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

3. Deferred revenue: (continued)

Gas Tax Agreement funding is provided by the Government of Canada. The use of the funding is established by a funding agreement between the local government and the Union of British Columbia Municipalities. Gas Tax Agreement funding may be used towards designated public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements. Certain funds received under the Gas Tax Agreement have been publicly committed by Council for use towards a specific sewer infrastructure project, and as such, have met the definition of a liability. Amounts will be recognized in revenue as expenditures are incurred on the project.

Schedule of Gas Tax Agreement funds

	2018	2017
Opening balance of unspent funds	\$ 6,001,314	\$ 5,957,207
Add:		
Interest earned	105,001	44,107
Closing balance of unspent funds	\$ 6,106,315	\$ 6,001,314

4. Employee future benefit obligations:

The District provides sick leave and certain benefits to its employees. These amounts and other employee related liabilities will require funding in future periods and are set out below.

Accumulated sick leave represents the liability for sick leave banks accumulated for estimated draw downs at future dates. Retirement benefit payments represent the District's share of the cost to provide employees with various benefits upon retirement including lump sum retirement payments, death benefits, certain vacation entitlements in the year of retirement, and pension buyback arrangements for qualified employees. The accrued employee benefit obligations and the net periodic benefit cost were estimated by an actuarial valuation completed effective for December 31, 2016 and extrapolated to December 31, 2018.

Information about liabilities for employee benefit plans is as follows:

	2018	2017
Accrued benefit liability, beginning of year	\$ 1,723,600	\$ 1,715,200
Service cost	132,900	122,800
Interest cost	50,700	54,700
Long-term disability expense	(114,000)	61,900
Actuarial adjustment	900	(9,700)
Benefit payments	(103,100)	(221,300)
Accrued benefit liability, end of year	\$ 1,691,000	\$ 1,723,600

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

4. Employee future benefit obligations: (continued)

The difference between the actuarially accrued benefit obligation of \$1,734,000 (2017 \$1,842,400) and the accrued benefit liability of \$1,691,000 (2017 - \$1,723,600) is an actuarial net loss of \$43,000 (2017 - \$118,800). This actuarial loss is being amortized over a period equal to the employees' average remaining service period of 10 years.

The total expense recorded in the financial statements in respect of obligations under this plan amounts to \$70,500 (2017 - \$229,700).

The significant actuarial assumptions adopted in measuring the District's accrued benefit obligations are as follows:

	2018	2017
Discount rates	3.30%	2.90%
Expected future inflation rates	2.50%	2.50%
Expected wage and salary increases	2.59 to 4.63%	2.59 to 4.63%

Municipal Pension Plan

The District and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2018, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local government.

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

The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The next valuation for the Municipal Pension Plan will be December 31, 2018, with results available later in 2019.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

4. Employee future benefit obligations: (continued)

The District paid \$1,848,231 (2017 - \$1,892,816) for employer contributions while employees contributed \$1,461,054 (2017 - \$1,473,844) to the plan in fiscal 2018

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.

GVLRA - CUPE Long-Term Disability Trust

The Trust was established January 1, 1987 as a result of negotiations between the Greater Victoria Labour Relations Association representing a number of employers and the Canadian Union of Public Employees representing a number of CUPE locals. The Trust's sole purpose is to provide a long-term disability income benefit plan. The District and its employees each contribute equal amounts into the Trust. The total plan provision for approved and unreported claims was actuarially determined at December 31, 2014. At December 31, 2017, the total plan provision for approved and unreported claims was \$17,177,300 with a net surplus of \$3,852,873. The actuary does not attribute portions of the unfunded liability to individual employers. The District paid \$86,745 (2017 - \$95,427) for employer contributions and District employees paid \$91,893 (2017 - \$100,191) for employee contributions to the plan in fiscal 2018.

5. Long-term debt:

	2018	2017
Debt - MFA Issue 80 payable at \$142,594 annually; fixed interest payments 2.40% paid semi-annually (\$113,160). Final payment October 3, 2023. As of October 3, 2018, interest rates were reset at 2.85%	\$ 1,638,031	\$ 1,920,357
Capital loans - MFA, payable monthly; payments include interest between 1.07% -1.40%; maturity dates from 2018 to 2020.	105,493	215,488
Total long-term debt	\$ 1,743,524	\$ 2,135,845

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

5. Long-term debt: (continued)

(a) Debenture debt:

The loan agreements with the Capital Regional District and the MFA provide that if, at any time, the scheduled payments provided for in the agreements are not sufficient to meet the MFA's obligations in respect of such borrowings, the resulting deficiency becomes a liability of the District.

The District issues its debentures through the MFA. Debentures are issued on a sinking fund basis, where the MFA invests the District's sinking fund payments so that the payments, plus investment income, will equal the original outstanding debt amount at the end of the repayment period. The gross value of debenture debt at December 31, 2018 is \$4,715,000.

(b) The aggregate amount of payments required on the District's long-term debt during each of the next five years is as follows:

	Minimum loan payments	Estimated principal payments	Total
2019	\$ 82,681	\$ 142,594	\$ 225,275
2020	24,916	142,594	167,510
2021	-	142,594	142,594
2022	-	142,594	142,594
2023	-	142,594	142,594
	\$ 107,597	\$ 712,970	\$ 820,567

(c) Total interest expense on long-term debt for the year ending December 31, 2018 amounted to \$117,084 (2017 - \$117,401).

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

6. Tangible capital assets:

Cost	Balance December 31, 2017	Additions	Disposals/ Transfers	Balance December 31, 2018
Land	\$ 2,852,877	\$ -	\$ -	\$ 2,852,877
Land improvements	1,652,155	60,907	-	1,713,062
Building and building improvements	25,853,013	151,069	(18,857)	25,985,225
Machinery and equipment	3,299,020	166,621	(18,437)	3,447,204
IT Equipment	1,217,420	131,720	(18,807)	1,330,333
Vehicles	6,128,479	69,086	(49,171)	6,148,394
Roads, drains, sewer and water	58,547,031	3,273,623	1,062,723	62,883,377
Assets under construction	1,502,864	883,396	(1,167,902)	1,218,358
Total	\$ 101,052,859	\$ 4,736,422	\$ (210,451)	\$ 105,578,830

Accumulated amortization	Balance December 31, 2017	Amortization Expense	Disposals	Balance December 31, 2018
Land improvements	\$ 386,824	\$ 55,425	\$ -	\$ 442,249
Building and building improvements	8,913,827	454,505	(13,326)	9,355,006
Machinery and equipment	1,792,833	259,584	(15,745)	2,036,672
IT Equipment	757,701	191,155	(18,807)	930,049
Vehicles	3,074,910	272,307	(24,713)	3,322,504
Roads, drains, sewer and water	28,569,282	958,533	(84,645)	29,443,170
Total	\$ 43,495,377	\$ 2,191,509	\$ (157,236)	\$ 45,529,650

Net book value	December 31, 2017	December 31, 2018
Land	\$ 2,852,877	\$ 2,852,878
Land improvements	1,265,334	1,270,816
Building and building improvements	16,939,187	16,630,219
Machinery and equipment	1,506,186	1,410,530
IT equipment	459,720	400,285
Vehicles	3,053,568	2,825,889
Roads, drains, sewer and water	29,977,746	33,440,204
Assets under construction	1,502,864	1,218,359
Total	\$ 57,557,482	\$ 60,049,180

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

6. Tangible capital assets: (continued)

(a) Assets under construction:

Assets under construction having a value of \$1,218,358 (2017 - \$1,502,864) have not been amortized. Amortization of these assets will commence when the asset is available for service.

(b) Contributed tangible capital assets:

There were no contributed assets recognized during 2017 or 2018.

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, tangible capital assets are recognized at a nominal value. Land is the only category where nominal values have been assigned.

(d) Works of art and historical treasures:

The District manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at District 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:

There were no write-downs assets during 2017 or 2018.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

7. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2018	2017
Surplus:		
Equity in tangible capital assets	\$ 58,305,656	\$ 55,421,637
Operating Fund	6,773,198	4,743,791
Total surplus	65,078,854	60,165,428
Reserve Funds:		
Village Parking	929,921	913,382
Fire Equipment	1,289,037	1,132,669
Land Sale	37,378	33,259
Machinery and Equipment	2,233,674	1,957,271
Heritage	2,178,532	2,163,911
Tax Sale Property	1,789	1,769
Parks Acquisition	463,757	275,487
Capital works	21,241,568	19,965,242
Alternative Transportation Infrastructure	14,197	14,041
Infrastructure Renewal	1,725,654	649,139
Total reserve funds	30,115,507	27,106,170
	\$ 95,194,361	\$ 87,271,598

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

8. Taxation:

As well as taxes for its own purposes, the District is required to collect taxes on behalf of, and transfer these amounts to, the government agencies noted below. Taxes levied over or under the amounts requisitioned are recorded as accounts payable or receivable.

	2018	2017
Taxes		
Property tax	\$ 41,887,116	\$ 40,278,465
Grants in lieu of taxes	186,999	181,028
Special assessments and local improvements	199,643	272,820
1% Utility tax	93,462	102,216
Waste disposal fees	1,541,770	1,542,300
Penalties and interest	151,684	157,492
	44,060,674	42,534,321
Less taxes levied on behalf of:		
Provincial government - school taxes	10,685,418	10,431,685
Capital Regional District	3,182,813	3,068,910
Telus (CREST) - CRD	64,219	64,922
Provincial Government - Non-residential school	1,003,429	1,004,463
Capital Regional Hospital District	2,089,714	2,094,992
Municipal Finance Authority	1,830	1,621
BC Assessment Authority	376,736	357,853
BC Transit Authority	1,736,519	1,784,515
Business Improvement Area	79,998	80,000
	19,220,676	18,888,961
Net taxes available for municipal purposes	\$ 24,839,998	\$ 23,645,360

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

9. Commitments and contingent liabilities:

In the normal course of business, the District enters into commitments for both capital and operational expenses. These commitments have been budgeted for within the appropriate annual financial plan and have been approved by Council.

(a) MFA debt reserve fund deposits:

Under borrowing arrangements with the MFA, the District is required to lodge security by means of demand notes and interest-bearing cash deposits based on the amount of the borrowing. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the MFA as a debt reserve fund. These deposits are included in the District's financial assets as cash and are held by the MFA as security against the possibility of debt repayment default. If the debt is repaid without default, the deposits are refunded to the District. At December 31, 2018 there were contingent demand notes of \$136,718 (2017 - \$136,718) which are not included in the financial statements of the District.

(b) Capital Regional District (CRD) debt, under the provision of the Local Government Act, is a direct, joint and several liability of the CRD and each member municipality within the CRD, including the District.

(c) The District is a shareholder and member of the Capital Regional Emergency Service Telecommunications (CREST) Incorporated whose services provide centralized emergency communications, and related public safety information services to municipalities, regional districts, the provincial and federal governments and their agencies, and emergency service organizations throughout the Greater Victoria region and the Gulf Islands. Members' obligations to share in funding ongoing operations and any additional costs relating to capital assets are to be contributed pursuant to a Members' Agreement.

(d) In the normal course of business, the District is a defendant in various lawsuits for which no liability is reasonably determinable at this time. Should the claims be successful as a result of litigation, amounts will be recorded when a liability is likely and determinable.

The District is self-insured for general liability claims through membership in the Municipal Insurance Association of British Columbia, a reciprocal insurance exchange. Under this program, member municipalities jointly share claims against any member in excess of their deductible. Should the Association pay out claims in excess of premiums received, it is possible that the District, along with the other participants, would be required to contribute towards the deficit. The District's deductible is \$10,000.

(e) During 2008 the Province of BC gave its share (50%) of the heritage property known as Tod House to the District. The value of this transaction was recorded as \$395,000. Concurrently the Province registered a "Possibility of Reverter" against the property. This states that the Province has granted its interest to the District "for so long as the land is used for the specific purpose of managing the Tod House Heritage Site". Previous correspondence with the Province suggests that if the property use is changed the District will pay to the Province 50% of the market value of the property at the time that its use changed. The District has no plans to change the use of Tod House.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

9. Commitments and contingent liabilities: (continued)

- (f) During 2015, the District entered into a lease agreement with the Board of Education of School District No. 61 (Greater Victoria) to lease the Neighbourhood Learning Centre, located in the Oak Bay High School. The lease commenced on September 1, 2015 and requires annual lease payments of \$89,984 for a term of 25 year

10. Contractual Rights

The District of Oak Bay's contractual rights arise from rights to receive payments from lease agreements. The District leases real estate property to commercial, affordable housing and non-profit organizations with terms ranging from 1 to 30 years. The District has contractual rights to receive the following amounts of lease revenue in the next 5 years.

Year	Lease Revenue
2019	\$ 444,240
2020	444,240
2021	444,240
2022	444,240
2023	444,240
	\$ 2,221,200

11. Trust funds:

Trust funds administered by the District have not been included in the statement of financial position nor have their operations been included in the statement of operations.

	Heritage House Trust	Legacy Trusts	2018	2017
Financial assets:				
Cash	\$ 676	\$ 76,592	\$ 77,268	\$ 76,421
Investments	322,261	333,597	655,858	598,716
Due from operating fund	14,288	14,220	28,508	46,789
	\$ 337,225	\$ 424,409	\$ 761,634	\$ 721,926

Since the use of Trust Funds is restricted, their assets and liabilities are not recorded in the financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

11. Trust funds: (continued)

The District has received bequests that are to be used for various purposes. These are maintained in the Legacy Trusts, with authorized expenditures being funded from it, and earnings on investments being added to the Trust.

12. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2018 operating and capital financial plans approved by Council on May 2, 2018 and subsequent amendments. Amortization was not contemplated in the development of the financial plan and, as such, has not been included. The following reconciles the approved financial plan to the financial plan figures reported in these financial statements.

	Financial plan amount
Revenues:	
Financial plan	\$ 48,748,657
Less:	
Transfers from reserves	1,945,710
Transfers from own funds	2,327,605
Total revenue	44,475,342
Expenses:	
Financial plan	48,748,657
Less:	
Capital expenses	7,652,109
Transfers to reserves	2,077,584
Debt principal payments	142,594
Transfers to own funds	2,275,059
Total expenses	36,601,311
Annual surplus	\$ 7,874,031

The annual surplus above represents the planned results of operations prior to the budgeted transfers between reserve funds, debt repayments and capital expenditures.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

13. Segmented information:

The Corporation of the District of Oak Bay is a diversified municipal organization that provides a wide range of services to its citizens. For management reporting purposes, the District's operations and activities are organized and reported by service areas. Municipal services are provided by departments and their activities are reported in these service areas. Service areas that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(a) General Government

The departments within General Government are Corporate Administration, Finance, and Information Technology. These departments are responsible for adopting bylaws, adopting administrative policy, levying taxes, ensuring effective financial management, monitoring performance and ensuring that high quality municipal service standards are met.

(b) Protective Services:

Protective Services is made up of Police, Fire, Building and Planning and Animal Control. The Police Department ensures the safety of the lives and property of Oak Bay citizens through the enforcement of municipal bylaws and criminal law, the maintenance of law and order, and the prevention of crime. The Fire Department is responsible for providing critical, life-saving services in preventing or minimizing the loss of life and property from fire emergencies. The Fire Department also coordinates the District's emergency program. The Building and Planning department provides a full range of building services related to permits and current regulatory issues and through its Bylaw Enforcement division promotes, facilitates and enforces general compliance with bylaws. Animal Control services enforce the animal control bylaws and operate the pound and adoption centre for animals.

(c) Transportation Services:

Transportation Services is responsible for the construction and maintenance of roads and sidewalks throughout Oak Bay. Other duties include street cleaning, leaf pickup, snow removal and street lighting. This department is also responsible for the construction and maintenance of the storm drain collection systems.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

13. Segmented information: (continued)

(d) Environmental Health Services:

The Environmental Health Services is responsible for the collection and disposal of household garbage.

(e) Recreation Services:

Recreation Services is responsible for providing, facilitating the development of, and maintaining the high quality of parks, recreation facilities, and cultural services.

(f) Water Utilities and Sewer Collection System:

The Water Utilities and Sewer Collection System Departments operate and distribute the water and sewer networks. They are responsible for the construction and maintenance of the water and sewer distribution systems, including mains and pump stations.

Certain allocation methodologies have been employed in the preparation of the segmented financial information. Taxation and payments-in-lieu of taxes are apportioned to General Government, Protective, Transportation, and Recreation Services based on current year expenditures less revenue from other sources. The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in note 1.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

13. Segmented information: (continued)

2018	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System	Total
Revenue:								
Taxation, net	\$ 1,685,617	\$ 11,863,745	\$ 4,688,222	\$ 1,541,770	\$ 5,060,644	\$ -	\$ -	\$ 24,839,998
Sales and service	120,441	-	-	6,914	8,567,628	3,628,235	3,092,299	15,415,517
Government transfers	1,508,839	203,312	-	-	665,563	678,094	-	3,055,808
Other revenues	464,232	929,576	39,218	-	-	-	-	1,433,026
Investment income	883,831	-	-	-	-	-	-	883,831
Total revenue	4,662,960	12,996,633	4,727,440	1,548,684	14,293,835	4,306,329	3,092,299	45,628,180
Expenses:								
Salaries and wages	1,542,284	8,416,484	1,864,067	369,551	8,726,688	526,864	462,463	21,908,401
Materials, supplies and services	2,494,994	1,109,346	909,353	826,896	3,353,932	2,435,293	2,357,360	13,487,174
Interest and other	-	-	-	-	118,334	-	-	118,334
Amortization of tangible capital assets	155,736	163,232	646,960	134,699	683,991	291,439	115,451	2,191,508
Total expenses	4,193,014	9,689,062	3,420,380	1,331,146	12,882,945	3,253,596	2,935,274	37,705,417
Annual surplus	\$ 469,946	\$ 3,307,571	\$ 1,307,060	\$ 217,538	\$ 1,410,890	\$ 1,052,734	\$ 157,025	\$ 7,922,763

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2018

13. Segmented information: (continued)

2017	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System	Total
Revenue:								
Taxation, net	\$ 2,926,294	\$ 9,830,084	\$ 4,079,301	\$ 1,542,300	\$ 5,267,381	\$ -	\$ -	\$ 23,645,360
Sales and service	114,070	-	-	6,905	7,993,782	3,583,748	2,597,704	14,296,209
Other revenues	479,908	1,087,901	27,740	-	-	-	-	1,595,549
Government transfers	1,289,695	207,759	-	-	-	472,078	-	1,969,532
Investment income	483,431	-	-	-	-	-	-	483,431
Total revenue	5,293,398	11,125,744	4,107,041	1,549,205	13,261,163	4,055,826	2,597,704	41,990,081
Expenses:								
Salaries and wages	2,711,271	8,312,148	1,884,807	331,344	8,419,094	587,523	454,213	22,700,400
Materials, supplies and services	1,954,811	1,163,961	936,630	828,389	3,079,422	2,295,280	1,959,550	12,218,043
Interest and other	-	-	-	-	113,160	-	-	113,160
Amortization of tangible capital assets	167,259	159,911	667,397	164,015	851,229	237,783	124,812	2,372,406
Total expenses	4,833,341	9,636,020	3,488,834	1,323,748	12,462,905	3,120,586	2,538,575	37,404,009
Annual surplus	\$ 460,057	\$ 1,489,724	\$ 618,207	\$ 225,457	\$ 798,258	\$ 935,240	\$ 59,129	\$ 4,586,072