

Financial Statements of

**THE CORPORATION OF THE
DISTRICT OF OAK BAY**

Year ended December 31, 2013

THE CORPORATION OF THE DISTRICT OF OAK BAY

Financial Statements

Year ended December 31, 2013

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.



Chief Administrative Officer



Treasurer



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Corporation of the District of Oak Bay which comprise the statement of financial position as at December 31, 2013, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Corporation of the District of Oak Bay as at December 31, 2013, and its results of operations, its change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

May 12, 2014
Victoria, Canada

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Financial assets:		
Cash	\$ 173,133	\$ 1,185,195
Investments (note 2)	32,118,920	30,452,141
Taxes receivable	411,142	351,862
Other accounts receivable	889,184	815,949
	<u>33,592,379</u>	<u>32,805,147</u>
Financial liabilities:		
Accounts payable and accrued liabilities	2,161,855	2,053,670
Deposits	1,065,713	1,298,884
Prepaid property taxes	1,547,189	1,292,590
Deferred revenue (note 3)	4,522,262	4,229,628
Employee future benefit obligations (note 4)	1,774,400	1,626,600
Long-term debt (note 5)	3,220,527	3,314,073
	<u>14,291,946</u>	<u>13,815,445</u>
Net financial assets	19,300,433	18,989,702
Non-financial assets:		
Tangible capital assets (note 6)	51,044,004	49,548,291
Inventory of supplies	524,292	459,742
Prepaid expenses	307,497	337,724
	<u>51,875,793</u>	<u>50,345,757</u>
Accumulated surplus (note 7)	\$ 71,176,226	\$ 69,335,459

Commitments and contingent liabilities (note 9)

See accompanying notes to financial statements.

 Treasurer

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Operations and Accumulated Surplus

Year ended December 31, 2013, with comparative information for 2012

	Financial plan (note 11)	2013	2012
Revenue:			
Taxation, net (note 8)	\$ 20,175,759	\$ 20,187,305	\$ 19,212,195
Sales and services	6,799,515	6,809,408	6,555,279
Other revenues	2,284,769	1,359,933	1,441,378
Government transfers	784,380	759,967	640,424
Investment income	162,000	370,581	343,974
Sales of water and sewer charges	4,592,209	4,551,283	4,067,419
Total revenue	34,798,632	34,038,477	32,260,669
Expenses:			
General government	4,563,041	4,177,323	3,435,093
Protective services	8,420,764	8,884,060	8,168,066
Transportation services	2,679,597	3,075,352	3,041,034
Environmental health services	922,454	1,032,845	1,023,807
Recreation services	10,718,808	11,189,631	10,817,752
Water utilities	2,749,029	2,720,351	2,751,089
Sewer collection system	1,215,203	1,118,148	746,880
Total expenses	31,268,896	32,197,710	29,983,721
Annual surplus	3,529,736	1,840,767	2,276,948
Accumulated surplus, beginning of year	69,335,459	69,335,459	67,058,511
Accumulated surplus, end of year	\$ 72,865,195	\$ 71,176,226	\$ 69,335,459

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, 2013, with comparative information for 2012

	Financial plan (note 11)	2013	2012
Annual surplus	\$ 3,529,736	\$ 1,840,767	\$ 2,276,948
Acquisition of tangible capital assets	(4,515,657)	(3,569,925)	(2,410,155)
Amortization of tangible capital assets	-	1,805,200	1,710,239
Loss on disposal of tangible capital assets	-	255,612	26,363
Proceeds on disposal of tangible capital assets	-	13,400	57,250
	(4,515,657)	(1,495,713)	(616,303)
Use (acquisition) of inventory of supplies	-	(64,550)	30,926
Use of prepaid expenses	-	30,227	57,456
	-	(34,323)	88,382
Change in net financial assets	(985,921)	310,731	1,749,027
Net financial assets, beginning of year	18,989,702	18,989,702	17,240,675
Net financial assets, end of year	\$ 18,003,781	\$ 19,300,433	\$ 18,989,702

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 1,840,767	\$ 2,276,948
Items not involving cash:		
Amortization of tangible capital assets	1,805,200	1,710,239
Loss on disposal of tangible capital assets	255,612	26,363
Change in non-cash operating assets and liabilities:		
Taxes receivable	(59,280)	50,539
Other accounts receivable	(73,235)	(158,329)
Accounts payable and accrued liabilities	108,185	43,210
Deposits	(233,171)	(798,724)
Prepaid property taxes	254,599	29,888
Deferred revenue	292,634	814,048
Employee future benefit obligations	147,800	114,600
Inventory of supplies	(64,550)	30,926
Prepaid expenses	30,227	57,456
	4,304,788	4,197,164
Capital activities:		
Acquisition of tangible capital assets	(3,569,925)	(2,410,155)
Proceeds on disposal of tangible capital assets	13,400	57,250
	(3,556,525)	(2,352,905)
Investing activities:		
Investments	(1,666,779)	(1,122,127)
Financing activities:		
Long-term debt issued	247,238	6,216
Long-term debt repaid	(340,784)	(300,433)
	(93,546)	(294,217)
Increase (decrease) in cash	(1,012,062)	427,915
Cash, beginning of year	1,185,195	757,280
Cash, end of year	\$ 173,133	\$ 1,185,195
Supplemental cash flow information:		
Cash paid for interest	\$ 197,836	\$ 226,941
Cash received from interest	463,506	371,684

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2013

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 10).

(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) Government transfers:

Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made. Transfers received for which expenses are not yet incurred are included in deferred revenue.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) Long-term debt:

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

(i) 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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(j) 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.

(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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

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

(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.

(k) 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.

(l) Change in accounting policy:

Government Transfers:

The District adopted Public Sector Accounting Standard PS 3410, *Government Transfers* effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3410, government transfers with stipulations are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met except when and to the extent the transfer gives rise to an obligation that meets the definition of a liability for the recipient government. There were no adjustments as a result of the adoption of this standard.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(l) Change in accounting policy (continued):

Property tax revenue

The District adopted Public Sector Accounting Standard PS 3510, *Tax Revenue* effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3510, local governments recognize property tax revenue using the approved mill rate and the anticipated assessment. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the statement of operations.

There were no adjustments as a result of the adoption of these standards.

2. Investments:

	2013	2012
MFA Money Market Fund	\$ 23,523,595	\$ 22,328,934
MFA Bond Fund	209,027	205,352
MFA Intermediate Fund	8,386,298	7,917,855
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	\$ 32,118,920	\$ 30,452,141

The fair value of the Funds approximates the recorded value.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Deferred revenue:

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

	2013	2012
Gas Tax Agreement Funds balance	\$ 3,502,859	\$ 2,878,890
Unearned revenues	1,019,403	1,350,738
Total deferred revenue	\$ 4,522,262	\$ 4,229,628

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.

Schedule of Gas Tax Agreement Funds

	2013	2012
Opening balance of unspent funds	\$ 2,878,890	\$ 2,327,286
Add:		
Amounts received during the year	531,044	531,268
Interest earned	92,925	27,710
	623,969	558,978
Less amount spent on projects and recorded as revenue	-	(7,374)
Closing balance of unspent funds	\$ 3,502,859	\$ 2,878,890

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

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, 2013.

Information about liabilities for employee benefit plans is as follows:

	2013	2012
Accrued benefit liability, beginning of year	\$ 1,626,600	\$ 1,512,000
Service cost	116,800	111,600
Interest cost	51,900	51,300
Long-term disability expense	105,700	48,000
Amortization of net actuarial gain	(100)	(5,600)
Benefit payments	(126,500)	(90,700)
Accrued benefit liability, end of year	\$ 1,774,400	\$ 1,626,600

The difference between the actuarially accrued benefit obligation of \$1,650,000 (2012 - \$1,626,200) and the accrued benefit liability of \$1,774,400 (2012 - \$1,626,600) is an actuarial net gain of \$124,400 (2012 - net gain of \$400). This actuarial gain 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 \$274,400 (2012 - \$205,300).

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Employee future benefit obligations (continued):

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

	2013	2012
Discount rates	4.00 %	3.40 %
Expected future inflation rates	2.50 %	2.50 %
Expected wage and salary increases	2.59 to 4.63 %	2.58 to 4.63 %

Municipal Pension Plan

The District and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteesd pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 179,000 active members and approximately 71,000 retired members. Active members include approximately 35,000 contributors from local government.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at December 31, 2012 indicated an unfunded liability of \$1,370 million for basic pension benefits. The next valuation will be as at December 31, 2015, with results available later in 2016. The actuary does not attribute portions of the surplus to individual employers. The District paid \$1,537,497 (2012 - \$1,495,870) for employer contributions and District employees paid \$1,238,353 (2012 - \$1,153,600) for employee contributions to the plan in fiscal 2013.

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. Employers and employees each contribute equal amounts into the Trust. The total plan provision for approved and unreported claims was actuarially determined at December 31, 2012. At December 31, 2013, the total plan provision for approved and unreported claims was \$18,615,400 with a net deficit of \$5,484,632. The actuary does not attribute portions of the unfunded liability to individual employers. The District paid \$92,483 (2012 - \$54,122) for employer contributions and District employees paid \$95,015 (2012 - \$60,158) for employee contributions to the plan in fiscal 2013.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

5. Long-term debt:

	2013	2012
Debenture debt - MFA Issue 80 payable at \$142,594 annually; fixed interest payments 4.775% paid semi-annually (\$112,571). Final payment October 3, 2023.	\$ 2,921,470	\$ 3,142,681
Capital leases - MFA, payable monthly; payments include interest from 1.25% to 2%; terms to 2018.	299,057	171,392
Total General Capital Fund debt	\$ 3,220,527	\$ 3,314,073

(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, 2013 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 lease payments	Estimated sinking fund payments	Total
2014	\$ 104,342	\$ 192,594	\$ 296,936
2015	93,496	192,594	286,090
2016	77,057	192,594	269,651
2017	22,207	192,594	214,801
2018	1,955	192,594	194,549
	\$ 299,057	\$ 962,970	\$ 1,262,027

(c) Total interest expense on long-term debt for the year ending December 31, 2013 amounted to \$200,158 (2012 - \$230,129).

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

6. Tangible capital assets:

Cost	Balance December 31, 2012	Additions	Disposals/ Transfers	Balance December 31, 2013
Land	\$ 2,852,877	\$ -	\$ -	\$ 2,852,877
Land improvements	748,313	62,086	-	810,399
Building and building improvements	22,126,253	998,762	(385,671)	22,739,344
Machinery and equipment	2,268,070	368,730	(124,812)	2,511,988
IT equipment	662,997	248,903	(157,090)	754,810
Vehicles	5,272,949	274,322	(136,887)	5,410,384
Roads, drains, sewer and water	51,132,702	1,615,768	(54,815)	52,693,655
Assets under construction	460,787	80,450	(79,096)	462,141
Total	\$ 85,524,948	\$ 3,649,021	\$ (938,371)	\$ 88,235,598

Accumulated amortization	Balance December 31, 2012	Disposals	Amortization expense	Balance December 31, 2013
Land improvements	\$ 109,985	\$ -	\$ 30,030	\$ 140,015
Building and building improvements	7,037,562	(179,980)	396,554	7,254,136
Machinery and equipment	1,344,458	(111,358)	158,445	1,391,545
IT equipment	433,317	(145,574)	124,220	411,963
Vehicles	2,199,218	(103,255)	289,176	2,385,139
Roads, drains, sewer and water	24,852,117	(50,096)	806,775	25,608,796
Total	\$ 35,976,657	\$ (590,263)	\$ 1,805,200	\$ 37,191,594

Net book value	December 31, 2012	December 31, 2013
Land	\$ 2,852,877	\$ 2,852,877
Land improvements	638,328	670,384
Building and building improvements	15,088,691	15,485,208
Machinery and equipment	923,612	1,120,443
IT equipment	229,680	342,847
Vehicles	3,073,731	3,025,245
Roads, drains, sewer and water	26,280,585	27,084,859
Assets under construction	460,787	462,141
Total	\$ 49,548,291	\$ 51,044,004

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

6. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$462,141 (2012 - \$460,787) 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 2013 or 2012.

(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

The write-down of tangible capital assets during the year was \$nil (2012 - \$nil).

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

7. Accumulated surplus:

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

	2013	2012
Surplus:		
Equity in tangible capital assets	\$ 47,823,477	\$ 46,234,218
Operating Fund	3,558,948	4,267,787
Total surplus	51,382,425	50,502,005
Reserve Funds:		
Village Parking	875,209	863,838
Fire Equipment	637,428	540,240
Land Sale	1,752,651	1,753,387
Machinery and Equipment	1,717,066	1,539,294
Heritage	2,161,709	2,156,542
Tax Sale Property	1,744	1,735
Parks Acquisition	264,330	263,019
Capital Works	12,368,190	11,700,030
Alternative Transportation Infrastructure	15,474	15,369
Total reserve funds	19,793,801	18,833,454
	\$ 71,176,226	\$ 69,335,459

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

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.

	2013	2012
Taxes		
Property tax	\$ 35,757,509	\$ 34,139,726
Payments in lieu of taxes	172,091	162,239
Special assessments and local improvements	242,223	235,995
1% Utility tax	144,534	118,477
Waste disposal fees	1,224,803	1,217,729
Penalties and interest	122,020	126,037
	<u>37,663,180</u>	<u>36,000,203</u>
Less taxes levied on behalf of:		
Provincial government - school taxes	9,779,253	9,493,062
Capital Regional District	2,636,778	2,578,014
Telus (CREST) - CRD	73,180	73,082
Provincial Government - Non-residential school	1,177,403	1,121,664
Capital Regional Hospital District	1,794,658	1,711,415
Municipal Finance Authority	1,197	1,183
BC Assessment Authority	372,423	361,849
BC Transit Authority	1,564,986	1,377,742
Business Improvement Area	75,997	69,997
	<u>17,475,875</u>	<u>16,788,008</u>
Net taxes available for municipal purposes	<u>\$ 20,187,305</u>	<u>\$ 19,212,195</u>

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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

9. Commitments and contingent liabilities (continued):

(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, 2013 there were contingent demand notes of \$136,718 (2012 - \$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) The District is a defendant in various lawsuits and historical circumstances may result in additional legal claims. The District records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. Other claims 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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

9. Commitments and contingent liabilities (continued):

- (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 has been 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.
- (f) During 2010 the District, under the approval of Council, committed to provide funding of \$1,000,000 towards the construction of a new Community Theatre and art facilities for the new Oak Bay High School. A payment of \$500,000 was made in the current year, with the second to be paid upon completion of the project. The remaining contribution will be recognized in the financial statements when the recipient has met the eligibility criteria for the funding.

10. 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	2013	2012
Financial assets:				
Cash	\$ 524	\$ 940	\$ 1,464	\$ 1,778
Investments	234,167	374,022	608,189	573,217
Due from operating fund	14,074	-	14,074	28,176
	<u>\$ 248,765</u>	<u>\$ 374,962</u>	<u>\$ 623,727</u>	<u>\$ 603,171</u>

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

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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

11. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2013 operating and capital financial plans approved by Council on May 13, 2013 and subsequent amendments. Amortization was not contemplated on 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	\$ 39,196,666
Less:	
Transfers from own funds	(2,032,456)
Financial plan amendments	(2,365,578)
Total revenue	34,798,632
Expenses:	
Financial plan	39,196,666
Less:	
Capital expenses	(5,537,322)
Transfer to other funds	(1,249,259)
Debt principal payments	(227,649)
Financial plan amendments	(913,540)
Total expenses	31,268,896
Annual surplus	\$ 3,529,736

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

12. 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:

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

12. Segmented information (continued):

(i) General Government:

The departments within General Government are Corporate Administration, Building and Planning, 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.

(ii) 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.

(iii) 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.

(iv) Environmental Health Services:

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

(v) Recreation Services:

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

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

12. Segmented information (continued):

(vi) 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. 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 (continued)

Year ended December 31, 2013

12. Segmented information (continued):

2013	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System		Total
							Collection System	Total	
Revenue:									
Taxation	\$ 2,516,669	\$ 8,544,738	\$ 3,198,727	\$ 1,224,803	\$ 4,702,368	\$ -	\$ -	\$ -	\$ 20,187,305
Sales and service	80,045	2,785	-	9,570	6,717,008	3,111,159	1,440,124	-	11,360,691
Government transfers	579,297	180,670	-	-	-	-	-	-	759,967
Other revenues	753,687	573,340	32,906	-	-	-	-	-	1,359,933
Investment income	370,581	-	-	-	-	-	-	-	370,581
Total revenue	4,300,279	9,301,533	3,231,633	1,234,373	11,419,376	3,111,159	1,440,124	-	34,038,477
Expenses:									
Salaries and wages	1,598,947	7,741,915	1,736,012	321,513	7,525,330	540,742	339,688	-	19,804,147
Materials, supplies and services	2,470,691	1,004,361	784,148	551,242	2,932,853	1,961,295	685,937	-	10,390,527
Interest and other	-	-	-	-	197,836	-	-	-	197,836
Amortization	107,685	137,784	555,192	160,090	533,612	218,314	92,523	-	1,805,200
Total expenses	4,177,323	8,884,060	3,075,352	1,032,845	11,189,631	2,720,351	1,118,148	-	32,197,710
Annual surplus	\$ 122,956	\$ 417,473	\$ 156,281	\$ 201,528	\$ 229,745	\$ 390,808	\$ 321,976	\$ -	\$ 1,840,767

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

12. Segmented information (continued):

2012	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System		Total
							Collection	System	
Revenue:									
Taxation	\$ 2,057,242	\$ 7,939,849	\$ 3,271,208	\$ 1,217,729	\$ 4,726,167	\$ -	\$ -	\$ -	\$ 19,212,195
Sales and service	58,883	-	-	9,869	6,486,527	3,055,399	1,012,020	-	10,622,698
Government transfers	369,924	270,500	-	-	-	-	-	-	640,424
Other revenues	776,982	621,211	43,185	-	-	-	-	-	1,441,378
Investment income	343,974	-	-	-	-	-	-	-	343,974
Total revenue	3,607,005	8,831,560	3,314,393	1,227,598	11,212,694	3,055,399	1,012,020	-	32,260,669
Expenses:									
Salaries and wages	1,142,314	7,125,005	1,675,492	314,518	7,392,681	531,178	360,618	-	18,541,806
Materials, supplies and services	2,211,253	908,884	832,928	557,553	2,690,203	2,009,807	294,107	-	9,504,735
Interest and other	-	-	-	-	226,941	-	-	-	226,941
Amortization	81,526	134,177	532,614	151,736	507,927	210,104	92,155	-	1,710,239
Total expenses	3,435,093	8,168,066	3,041,034	1,023,807	10,817,752	2,751,089	746,880	-	29,983,721
Annual surplus	\$ 171,912	\$ 663,494	\$ 273,359	\$ 203,791	\$ 394,942	\$ 304,310	\$ 265,140	\$ -	\$ 2,276,948