

Financial Statements of

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

Year ended December 31, 2014

THE CORPORATION OF THE DISTRICT OF OAK BAY

Financial Statements

Year ended December 31, 2014

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, 2014, 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, 2014, 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 11, 2015
Victoria, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Financial assets:		
Cash and cash equivalents	\$ 671,770	\$ 173,133
Investments (note 2)	35,016,436	32,118,920
Taxes receivable	1,198,877	411,142
Other accounts receivable	1,399,081	889,184
	<u>38,286,164</u>	<u>33,592,379</u>
Financial liabilities:		
Accounts payable and accrued liabilities	2,798,172	2,161,855
Deposits	1,243,683	1,065,713
Prepaid property taxes	1,436,840	1,547,189
Deferred revenue (note 3)	5,767,266	4,522,262
Employee future benefit obligations (note 4)	1,654,900	1,774,400
Long-term debt (note 5)	3,062,263	3,220,527
	<u>15,963,124</u>	<u>14,291,946</u>
Net financial assets	22,323,040	19,300,433
Non-financial assets:		
Tangible capital assets (note 6)	51,960,750	51,044,004
Inventory of supplies	571,729	524,292
Prepaid expenses	465,715	307,497
	<u>52,998,194</u>	<u>51,875,793</u>
Accumulated surplus (note 7)	\$ 75,321,234	\$ 71,176,226

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, 2014, with comparative information for 2013

	Financial plan (note 11)	2014	2013
Revenue:			
Taxation, net (note 8)	\$ 21,248,856	\$ 21,321,544	\$ 20,187,305
Sales and services	6,895,417	7,336,815	6,809,408
Other revenues	2,200,782	1,999,405	1,359,933
Government transfers	466,917	531,336	759,967
Investment income	175,000	463,156	370,581
Sales of water and sewer charges	4,933,982	4,998,544	4,551,283
Total revenue	35,920,954	36,650,800	34,038,477
Expenses:			
General government	4,086,627	4,038,860	4,177,323
Protective services	8,894,462	8,552,620	8,884,060
Transportation services	2,724,475	3,104,355	3,075,352
Environmental health services	1,200,827	1,270,674	1,032,845
Recreation services	10,806,278	11,238,283	11,189,631
Water utilities	2,691,284	2,757,301	2,720,351
Sewer collection system	1,481,803	1,543,699	1,118,148
Total expenses	31,885,756	32,505,792	32,197,710
Annual surplus	4,035,198	4,145,008	1,840,767
Accumulated surplus, beginning of year	71,176,226	71,176,226	69,335,459
Accumulated surplus, end of year	\$ 75,211,424	\$ 75,321,234	\$ 71,176,226

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, 2014, with comparative information for 2013

	Financial plan (note 11)	2014	2013
Annual surplus	\$ 4,035,198	\$ 4,145,008	\$ 1,840,767
Acquisition of tangible capital assets	(4,831,206)	(2,906,049)	(3,569,925)
Amortization of tangible capital assets	-	1,899,585	1,805,200
Loss on disposal of tangible capital assets	-	45,918	255,612
Proceeds on disposal of tangible capital assets	-	43,800	13,400
	(4,831,206)	(916,746)	(1,495,713)
Use of inventory of supplies	-	(47,437)	(64,550)
Use of prepaid expenses	-	(158,218)	30,227
	-	(205,655)	(34,323)
Change in net financial assets	(796,008)	3,022,607	310,731
Net financial assets, beginning of year	19,300,433	19,300,433	18,989,702
Net financial assets, end of year	\$ 18,504,425	\$ 22,323,040	\$ 19,300,433

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 4,145,008	\$ 1,840,767
Items not involving cash:		
Amortization of tangible capital assets	1,899,585	1,805,200
Loss on disposal of tangible capital assets	45,918	255,612
Change in non-cash operating assets and liabilities:		
Taxes receivable	(787,735)	(59,280)
Other accounts receivable	(509,897)	(73,235)
Accounts payable and accrued liabilities	636,317	108,185
Deposits	177,970	(233,171)
Prepaid property taxes	(110,349)	254,599
Deferred revenue	1,245,004	292,634
Employee future benefit obligations	(119,500)	147,800
Inventory of supplies	(47,437)	(64,550)
Prepaid expenses	(158,218)	30,227
	<u>6,416,666</u>	<u>4,304,788</u>
Capital activities:		
Acquisition of tangible capital assets	(2,906,049)	(3,569,925)
Proceeds on disposal of tangible capital assets	43,800	57,250
	<u>(2,862,249)</u>	<u>(3,556,525)</u>
Investing activities:		
Investments	(2,897,516)	(1,666,779)
Financing activities:		
Long-term debt issued	187,013	247,238
Long-term debt repaid	(345,277)	(340,784)
	<u>(158,264)</u>	<u>(93,546)</u>
Increase (decrease) in cash	498,637	(1,012,062)
Cash, beginning of year	173,133	1,185,195
Cash, end of year	<u>\$ 671,770</u>	<u>\$ 173,133</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 113,160	\$ 197,836
Cash received from interest	411,599	463,506

See accompanying notes to financial statements.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

Year ended December 31, 2014

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) 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 (continued)

Year ended December 31, 2014

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 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.

(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 (continued)

Year ended December 31, 2014

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.

(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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

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

(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) 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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

2. Investments:

	2014	2013
MFA Money Market Fund	\$ 25,403,675	\$ 23,523,595
MFA Bond Fund	215,607	209,027
MFA Intermediate Fund	9,397,154	8,386,298
	<u>\$ 35,016,436</u>	<u>\$ 32,118,920</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:

	2014	2013
Gas Tax Agreement Funds balance	\$ 4,267,689	\$ 3,443,583
Unearned revenues	1,499,577	1,078,679
Total deferred revenue	<u>\$ 5,767,266</u>	<u>\$ 4,522,262</u>

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

	2014	2013
Opening balance of unspent funds	\$ 3,443,583	\$ 2,878,890
Add:		
Amounts received during the year	785,987	531,044
Interest earned	38,119	33,649
	<u>824,106</u>	<u>564,693</u>
Closing balance of unspent funds	<u>\$ 4,267,689</u>	<u>\$ 3,443,583</u>

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

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:

	2014	2013
Accrued benefit liability, beginning of year	\$ 1,774,400	\$ 1,626,600
Service cost	107,100	116,800
Interest cost	56,800	51,900
Long-term disability expense	(154,300)	105,700
Amortization of net actuarial gain	(12,600)	(100)
Benefit payments	(116,500)	(126,500)
Accrued benefit liability, end of year	\$ 1,654,900	\$ 1,774,400

The difference between the actuarially accrued benefit obligation of \$1,601,600 (2013 - \$1,650,000) and the accrued benefit liability of \$1,654,900 (2013 - \$1,774,400) is an actuarial net gain of \$53,300 (2013 - \$124,400). 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 \$9,600 (2013 - \$274,400).

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

4. Employee future benefit obligations (continued):

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

	2014	2013
Discount rates	3.10 %	4.00 %
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 (the "Plan"), a jointly trustee 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 182,000 active members and approximately 75,000 retired members. Active members include approximately 36,000 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 unfunded liability to individual employers. The District paid \$1,531,844 (2013 - \$1,537,497) for employer contributions and District employees paid \$1,241,300 (2013 - \$1,238,353) for employee contributions to the plan in fiscal 2014.

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, 2012. At December 31, 2014, the total plan provision for approved and unreported claims was \$15,368,300 with a net deficit of \$729,956. The actuary does not attribute portions of the unfunded liability to individual employers. The District paid \$91,619 (2013 - \$92,483) for employer contributions and District employees paid \$99,521 (2013 - \$95,015) for employee contributions to the plan in fiscal 2014.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

5. Long-term debt:

	2014	2013
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.	\$ 2,689,200	\$ 2,921,470
Capital leases - MFA, payable monthly; payments include interest between 2.00 - 4.00%; terms from 2010 to 2019.	373,063	299,057
Total General Capital Fund debt	\$ 3,062,263	\$ 3,220,527

(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, 2014 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
2015	\$ 131,600	\$ 192,594	\$ 324,194
2016	115,625	192,594	308,219
2017	59,979	192,594	252,573
2018	37,775	192,594	230,369
2019	28,084	192,594	220,678
	\$ 373,063	\$ 962,970	\$ 1,336,033

(c) Total interest expense on long-term debt for the year ending December 31, 2014 amounted to \$114,519 (2013 - \$200,158).

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

6. Tangible capital assets:

Cost	Balance December 31, 2013	Additions	Disposals/ Transfers	Balance December 31, 2014
Land	\$ 2,852,877	\$ -	\$ -	\$ 2,852,877
Land improvements	711,673	75,613	-	787,286
Building and building improvements	22,900,282	186,706	(4,952)	23,082,036
Machinery and equipment	2,586,221	442,989	(328,274)	2,700,936
IT equipment	749,520	99,505	(40,355)	808,670
Vehicles	5,375,953	380,681	(131,665)	5,624,969
Roads, drains, sewer and water	52,596,931	1,634,111	(71,980)	54,159,062
Assets under construction	462,141	86,444	-	548,585
Total	\$ 88,235,598	\$ 2,906,049	\$ (577,226)	\$ 90,564,421

Accumulated amortization	Balance December 31, 2013	Disposals	Amortization expense	Balance December 31, 2014
Land improvements	\$ 140,015	\$ -	\$ 35,187	\$ 175,202
Building and building improvements	7,254,136	(2,905)	402,460	7,653,691
Machinery and equipment	1,391,545	(281,179)	204,964	1,315,330
IT equipment	411,963	(39,780)	121,541	493,724
Vehicles	2,385,139	(94,659)	295,925	2,586,405
Roads, drains, sewer and water	25,608,796	(68,983)	839,506	26,379,319
Total	\$ 37,191,594	\$ (487,506)	\$ 1,899,583	\$ 38,603,671

Net book value	December 31, 2013	December 31, 2014
Land	\$ 2,852,877	\$ 2,852,877
Land improvements	571,658	612,084
Building and building improvements	15,646,146	15,428,345
Machinery and equipment	1,194,676	1,385,606
IT equipment	337,557	314,946
Vehicles	2,990,814	3,038,564
Roads, drains, sewer and water	26,988,135	27,779,743
Assets under construction	462,141	548,585
Total	\$ 51,044,004	\$ 51,960,750

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

6. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$548,585 (2013 - \$462,141) 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 2014 or 2013.

(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 (2013 - \$nil).

(f) Comparative figures

Certain comparative figures have been reclassified to conform with the financial presentation of the current year.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

7. Accumulated surplus:

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

	2014	2013
Surplus:		
Equity in tangible capital assets	\$ 48,898,487	\$ 47,823,477
Operating Fund	4,065,108	3,558,948
Total surplus	52,963,595	51,382,425
Reserve Funds:		
Village Parking	885,814	875,209
Fire Equipment	737,129	637,428
Land Sale	1,753,341	1,752,651
Machinery and Equipment	1,621,983	1,717,066
Heritage	2,162,802	2,161,709
Tax Sale Property	1,754	1,744
Parks Acquisition	267,454	264,330
Capital Works	14,913,527	12,368,190
Alternative Transportation Infrastructure	13,835	15,474
Total reserve funds	22,357,639	19,793,801
	\$ 75,321,234	\$ 71,176,226

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

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.

	2014	2013
Taxes		
Property tax	\$ 36,500,656	\$ 35,757,509
Payments in lieu of taxes	177,608	172,091
Special assessments and local improvements	229,972	242,223
1% Utility tax	136,067	144,534
Waste disposal fees	1,449,027	1,224,803
Penalties and interest	201,514	122,020
	<u>38,694,844</u>	<u>37,663,180</u>
Less taxes levied on behalf of:		
Provincial government - school taxes	9,622,577	9,779,253
Capital Regional District	2,635,204	2,636,778
Telus (CREST) - CRD	70,504	73,180
Provincial Government - Non-residential school	1,179,440	1,177,403
Capital Regional Hospital District	1,804,817	1,794,658
Municipal Finance Authority	1,165	1,197
BC Assessment Authority	366,419	372,423
BC Transit Authority	1,629,171	1,564,986
Business Improvement Area	64,003	75,997
	<u>17,373,300</u>	<u>17,475,875</u>
Net taxes available for municipal purposes	<u>\$ 21,321,544</u>	<u>\$ 20,187,305</u>

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

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, 2014 there were contingent demand notes of \$136,718 (2013 - \$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.

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

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 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.
- (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 prior year, with the remainder 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 which is expected in the year 2015.

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	2014	2013
Financial assets:				
Cash	\$ 605	\$ 945	\$ 1,550	\$ 1,464
Investments	250,782	378,097	628,879	608,189
Due from operating fund	14,044	-	14,044	14,074
	<u>\$ 265,431</u>	<u>\$ 379,042</u>	<u>\$ 644,473</u>	<u>\$ 623,727</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, 2014

11. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2014 operating and capital financial plans approved by Council on May 12, 2014 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	\$ 39,198,493
Less:	
Transfers from own funds	(1,227,020)
Financial plan amendments	(2,050,519)
Total revenue	35,920,954
Expenses:	
Financial plan	39,198,493
Less:	
Capital expenses	(4,871,206)
Transfer to other funds	(1,257,824)
Debt principal payments	(257,532)
Financial plan amendments	(926,175)
Total expenses	31,885,756
Annual surplus	\$ 4,035,198

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, 2014

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, 2014

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, 2014

12. Segmented information (continued):

2014	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System	Total
Revenue:								
Taxation	\$ 2,595,586	\$ 8,824,079	\$ 3,685,518	\$ 1,449,027	\$ 4,767,334	\$ -	\$ -	\$ 21,321,544
Sales and service	65,500	-	-	9,177	7,262,138	3,234,467	1,764,077	12,335,359
Government transfers	350,666	180,670	-	-	-	-	-	531,336
Other revenues	956,599	1,012,319	30,487	-	-	-	-	1,999,405
Investment income	463,156	-	-	-	-	-	-	463,156
Total revenue	4,431,507	10,017,068	3,716,005	1,458,204	12,029,472	3,234,467	1,764,077	36,650,800
Expenses:								
Salaries and wages	1,298,350	7,442,276	1,788,107	320,315	7,750,904	559,917	425,711	19,585,580
Materials, supplies and services	2,636,193	955,659	725,553	781,399	2,816,547	1,968,109	1,024,007	10,907,467
Interest and other	-	-	-	-	113,160	-	-	113,160
Amortization	104,317	154,685	590,695	168,960	557,672	229,275	93,981	1,899,585
Total expenses	4,038,860	8,552,620	3,104,355	1,270,674	11,238,283	2,757,301	1,543,699	32,505,792
Annual surplus	\$ 392,647	\$ 1,464,448	\$ 611,650	\$ 187,530	\$ 791,189	\$ 477,166	\$ 220,378	\$ 4,145,008

THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2014

12. Segmented information (continued):

2013	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer 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