

Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF ESQUIMALT**

Year ended December 31, 2025

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Financial Statements

Year Ended December 31, 2025

Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of the Corporation of the Township of Esquimalt (the "Township") are the responsibility of management and have been prepared in compliance with applicable legislation, and 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. 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 judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Township'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 auditor to review the financial statements and discuss any significant financial reporting or internal control matters prior to Council's acceptance of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditor appointed by the Township. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Township's financial statements.

Chief Administrative Officer

Director of Financial Services

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Statement of Financial Position

As at December 31, 2025

	2025	2024
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 84,326,152	\$ 87,462,378
Property taxes receivable	1,971,456	1,476,570
Accounts receivable	1,163,258	2,001,048
MFA debt reserve cash (Note 12(a))	454,474	477,257
	<u>87,915,340</u>	<u>91,417,253</u>
Liabilities		
Accounts payable and accrued liabilities (Note 3)	16,106,035	11,418,246
Deferred revenue and deposits (Note 4)	11,120,392	9,657,519
Debt (Note 5)	31,980,144	33,250,062
Employee benefit and retirement obligations (Note 6)	1,737,200	1,632,371
	<u>60,943,771</u>	<u>55,958,198</u>
Net financial assets	26,971,569	35,459,055
Non-financial assets		
Tangible capital assets (Note 7)	123,586,455	110,861,103
Inventory of supplies	206,997	212,592
Prepaid expenses	198,328	212,503
	<u>123,991,780</u>	<u>111,286,198</u>
Commitments and contingencies (Note 12)		
Accumulated surplus (Note 8)	<u>\$ 150,963,349</u>	<u>\$ 146,745,253</u>

The accompanying notes are an integral part of these financial statements.

Director of Financial Services

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Statement of Operations and Accumulated Surplus

Year Ended December 31, 2025

	2025 Budget (Note 13)	2025	2024
Revenues			
Taxes for municipal purposes (Note 9)	\$ 25,809,460	\$ 26,036,763	\$ 23,107,556
Payments in place of taxes (Note 10)	14,656,418	14,875,175	13,913,268
Sale of services	5,167,771	5,830,862	5,736,768
Capital contributions & donations	-	1,456,793	183,067
Other revenue from own sources	2,767,800	4,546,126	5,957,662
Conditional transfers from other governments (Note 11)	2,017,767	1,903,738	1,777,224
Unconditional transfers from other governments (Note 11)	486,000	476,000	493,800
	50,905,216	55,125,457	51,169,345
Expenses			
General government	6,592,560	7,286,221	6,056,287
Protective services	19,569,126	20,207,307	18,321,594
Transportation	4,903,904	5,992,542	5,599,784
Environmental health	1,667,898	2,403,888	2,369,667
Environmental development	1,425,379	1,037,539	979,996
Recreation, parks and culture	12,228,258	13,979,864	13,067,524
	46,387,125	50,907,361	46,394,852
Annual surplus	4,518,091	4,218,096	4,774,493
Accumulated surplus, beginning of year	146,745,253	146,745,253	141,970,760
Accumulated surplus, end of year	\$ 151,263,344	\$ 150,963,349	\$ 146,745,253

The accompanying notes are an integral part of these financial statements.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Statement of Change in Net Financial Assets

Year Ended December 31, 2025

	2025 Budget (Note 13)	2025	2024
Annual surplus	\$ 4,518,091	\$ 4,218,096	\$ 4,774,493
Contributed tangible capital assets	-	(1,158,354)	(183,067)
Acquisition of tangible capital assets	(48,970,154)	(16,675,490)	(9,159,863)
Amortization of tangible capital assets	-	4,445,596	4,228,631
Proceeds on disposal of tangible capital assets	-	642,083	-
Loss on disposal of tangible capital assets	-	20,813	23,968
	(48,970,154)	(12,725,352)	(5,090,331)
Acquisition of inventory supplies	-	(206,997)	(212,592)
Consumption of inventory supplies	-	212,592	201,306
Acquisition of prepaid expenses	-	(198,328)	(212,503)
Consumption of prepaid expenses	-	212,503	178,621
	-	19,770	(45,168)
Change in net financial debt	(44,452,063)	(8,487,486)	(361,006)
Net financial assets, beginning of year	35,459,055	35,459,055	35,820,061
Net financial assets (deficit), end of year	\$ (8,993,008)	\$ 26,971,569	\$ 35,459,055

The accompanying notes are an integral part of these financial statements.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Statement of Cash Flows

Year Ended December 31, 2025

	2025	2024
Operating activities		
Annual surplus	\$ 4,218,096	\$ 4,774,493
Items not involving cash		
Contributed tangible capital assets	(1,158,354)	(183,067)
Amortization of tangible capital assets	4,445,596	4,228,631
Change in employee benefits and other liabilities	104,829	32,202
Actuarial adjustment on debt	(212,063)	(280,040)
Loss on disposal of tangible capital assets	20,813	23,968
Change in non-cash items		
Property taxes receivable	(494,886)	(297,016)
Accounts receivable	837,790	89,147
MFA debt reserve fund cash	22,783	21,422
Accounts payable and accrued liabilities	4,687,789	(2,129,047)
Deferred revenue and deposits	1,462,873	1,366,741
Inventory of supplies	5,595	(11,286)
Prepaid expenses and deposits	14,175	(33,882)
	<u>13,955,036</u>	<u>7,602,266</u>
Capital activities		
Acquisition of tangible capital assets	(16,675,490)	(9,159,863)
Proceeds on disposal of tangible capital assets	642,083	-
	<u>(16,033,407)</u>	<u>(9,159,863)</u>
Financing activities		
Debt principal repaid	(1,057,855)	(1,193,784)
Net change in cash and cash equivalents	(3,136,226)	(2,751,381)
Cash and cash equivalents, beginning of year	87,462,378	90,213,759
Cash and cash equivalents, end of year	<u>\$ 84,326,152</u>	<u>\$ 87,462,378</u>

The accompanying notes are an integral part of these financial statements.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

The Corporation of the Township of Esquimalt (the "Township") was incorporated on September 1, 1912 under the Municipal Act, a statute of the Province of British Columbia. Its principal activities are the provisions 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 Township are prepared by management in accordance with Canadian public sector accounting standards for governments as recommended by the Public Sector Accounting Board ("PSAB") of The Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Township 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 Township's activities and funds. Inter-departmental balances and organizational transactions have been eliminated. The Township does not control any significant external entities and accordingly, no entities have been consolidated in these financial statements.

(b) Basis of accounting

The Township 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 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.

Government transfers without stipulations restricting their use are recognized in the financial statements as revenue in the period in which the transfers are authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

(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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

1. Significant accounting policies (continued)

(d) Deferred revenue (continued)

Revenue is recognized in the period when the related expenditures are incurred, services performed, or the tangible capital assets are acquired thereby extinguishing the related liability. Revenue from unilateral transactions is recognized when the ability to claim or retain an airflow of economic resources and a past transaction or event giving rise to the asset has occurred. Revenue from exchange transactions is recognized when the performance obligations have been satisfied.

(e) Property tax revenue

Property tax revenue is recognized on the accrual basis using the approved tax 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) Cash and cash equivalents

Cash and cash equivalents include investments in the Municipal Finance Authority of British Columbia (the "MFA") Money Market Funds which are recorded at cost plus earnings reinvested in the funds.

(h) Long-term debt

Long-term debt is reported net of related payments and actuarial earnings.

(i) Employee future benefits

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

Sick leave benefits and other retirement benefits are also available to the Township'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 actuarial losses or gains are amortized over a period equal to the employee's average remaining service lifetime.

(j) Financial instruments

Financial instruments include cash and cash equivalents, accounts receivables, property taxes receivables, MFA debt reserve cash, accounts payables and accrued liabilities and debt.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

1. Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to carry any other financial instruments at fair value.

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the Statement of Operations and Accumulated Surplus. There are no unrealized changes in fair value as at December 31, 2025 and December 31, 2024. As a result, the Township does not have a Statement of Remeasurement Gains and Losses.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method or effective interest rate method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the Statement of Operations and Accumulated Surplus and any unrealized gain is adjusted through the Statement of Remeasurement Gains and Losses. When the asset is sold, the unrealized gains and losses previously recognized in the Statement of Remeasurement Gains and Losses are reversed and recognized in the Statement of Operations and Accumulated Surplus.

(k) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They 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 costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Land improvements	10 - 50
Building and building improvements	5 - 70
Vehicles, machinery and equipment	3 - 30
Water and wastewater infrastructure	20 - 100
Roads infrastructure	15 - 80

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

1. Significant accounting policies (continued)

(k) Non-financial assets (continued)

(i) Tangible capital assets (continued)

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 Township's ability to provide goods and services, or when the value of future economic benefits associated with the asset are less than the book value of the asset.

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions including tangible capital assets received in lieu of a developer cost charge, are recorded at 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 Township does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital

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) Asset retirement obligations

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

1. Significant accounting policies (continued)

(l) Asset retirement obligations (continued)

The liability is initially recognized based on estimated future expenditures to retire a tangible capital asset, with the resulting costs capitalized as part of the carrying amount of the related tangible capital asset. Assumptions used in the subsequent calculations are revised yearly. The liability is discounted using a present value calculation and adjusted yearly for accretion expense. This cost is amortized following the amortization policies outlined in Note 1(k)(i) above.

(m) Liability for contaminated sites

The Township records a liability in its financial statements when contamination on non-active property exceeds an accepted environmental standard and the Township is directly responsible, or accepts responsibility, for the damage. The liability is measured at the Township's best estimate of the costs directly attributable to remediation of the contamination.

No contaminated sites liabilities have been recorded in these financial statements.

(n) Use of estimates

The preparation of financial statements in conformity with Canadian 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. Estimates include assumptions used in estimating useful lives of tangible capital assets, asset retirement obligations and estimating provisions for accrued liabilities including employee future benefits. Actual results could differ from those estimates.

2. Cash and cash equivalents

	<u>2025</u>	<u>2024</u>
Cash and bank deposits	\$ 5,376,735	\$ 2,017,931
Municipal Finance Authority Money Market Funds	78,949,417	85,444,447
	<u>\$ 84,326,152</u>	<u>\$ 87,462,378</u>

3. Accounts payable and accrued liabilities

Accrued liabilities includes the following asset retirement obligation:

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 77,411	\$ 73,880
Accretion expense	3,700	3,531
Balance, end of year	<u>\$ 81,111</u>	<u>\$ 77,411</u>

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

4. Deferred revenue and deposits

Deferred revenue, reported on the statement of financial position, includes the following:

	2025	2024
Trust and deposit liabilities	\$ 4,875,021	\$ 4,448,597
Unearned recreation fees	858,074	653,431
Property tax instalments	2,395,934	1,812,400
Building permits	471,023	462,836
Miscellaneous	2,520,340	2,280,255
	<u>\$ 11,120,392</u>	<u>\$ 9,657,519</u>

Included in miscellaneous deferred revenue is funding from the Province of BC for local government housing initiatives to facilitate implementation and support local governments in meeting new legislative requires under Bill 44, Bill 47, Bill 46 and Bill 16.

	2025	2024
Opening balance	\$ 98,347	\$ -
Grant received	-	235,583
Eligible projects	(41,853)	(137,236)
Balance of grant, deferred	<u>\$ 56,494</u>	<u>\$ 98,347</u>

5. Debt

	2025	2024
General capital		
Bylaw 3021, public safety building, debenture debt repayable annually to 2051, at an interest rate of 2.58%	\$ 31,548,328	\$ 32,440,256
Sewer capital		
Bylaw 2565, sewer improvements, debenture debt repayable annually to 2025, at an interest rate of 0.91%	-	126,033
Bylaw 2565, sewer improvements, debenture debt repayable annually to 2026, at an interest rate of 1.53%	71,486	148,906
Bylaw 2565, sewer improvements, debenture debt repayable annually to 2027, at an interest rate of 3.90%	318,466	472,884
	<u>389,952</u>	<u>747,823</u>
General capital short term equipment financing		
Recreation fitness equipment, repayable monthly to 2027, at a variable interest rate	41,864	61,983
	<u>\$ 31,980,144</u>	<u>\$ 33,250,062</u>

In 2003, the Council of the Township adopted Bylaw No. 2565 to authorize the construction of improvements to the sanitary sewer system and to borrow upon the credit of the Township a sum not to exceed \$6,750,000.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT
Notes to Financial Statements
Year Ended December 31, 2025

5. Debt (continued)

In 2021, the Council of the Township adopted Bylaw No. 3021 to authorize the construction of a new public safety building and to borrow upon the credit of the Township a sum not to exceed \$35,000,000.

In 2022, the Council of the Township authorized the replacement of aging fitness equipment and to borrow short term upon the credit of the Township a sum not to exceed \$98,761.

Total interest on debt for the year was \$1,026,387, including accrued interest of \$246,025 (2024 - \$1,084,671, including accrued interest of \$249,987).

The Township issues its debt instruments through the MFA. The debt is issued on a sinking fund basis, whereby MFA invests the Township's principal payments so that the payments, plus investment income, will equal the original outstanding debt amount at the end of the repayment period. Actuarial earnings on debt represent the repayment and/or forgiveness of debt by the MFA using surplus investment income generated by the principal payments.

Principal and interest payments and actuarial adjustments on debt for the next five years and thereafter are as follows:

2026	\$	1,132,595
2027		1,112,901
2028		947,947
2029		969,276
2030		991,085
Thereafter		<u>26,826,340</u>
Total	\$	<u>31,980,144</u>

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

6. Employee benefit and retirement obligations

The Township provides sick leave and certain benefits to its employees. These amounts and other employee related liabilities that require funding in future periods 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 Township'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.

Information about liabilities for employee benefit plans is as follows:

	2025	2024
Accrued benefit obligation, beginning of year	\$ 1,632,371	\$ 1,600,169
Service cost	145,500	145,000
Interest cost	80,200	72,900
Benefits payments	(101,600)	(210,200)
Past agreement refund accrual adjustment	(19,271)	24,502
Accrued benefit obligation, end of year	\$ 1,737,200	\$ 1,632,371

The actuarially accrued benefit obligation set out in the actuarial valuation is \$1,914,000 (2024 - \$1,774,300), resulting in a variance of \$176,800 between the obligation and the accrued benefit liability of \$1,737,200 (2024 - \$1,632,371). The variance is composed of an actuarial net loss of \$176,800 (2024 - \$201,200) and the special agreement refund accrual adjustment of \$(19,271) (2024 - \$24,502). This actuarial loss is being amortized over a period equal to the employees' average remaining service lifetime of 11 years. The total expense recorded in the financial statements in respect of obligations under this plan amounts to \$265,700 (2024 - \$240,600).

The accrued benefit obligations and the net periodic benefit cost were estimated by actuarial valuation as of November 21, 2025. At December 31, 2025, the valuation was updated to reflect specific changes in the assumptions adopted in measuring the Township's accrued employee benefit obligations. The significant assumptions adopted in measuring the Township's accrued benefit obligations are as follows:

	2025	2024
Discount rates	4.50%	4.30%
Expected inflation rate	3.00%	3.00%
Expected wage and salary increase, based on age and gender	0.00% - 3.40%	0.00% - 3.40%

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

6. Employee benefit and retirement obligations (continued)

Municipal Pension Plan

The Township 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, 2024, the plan has about 273,000 active members and approximately 133,000 retired members. Active members include approximately 47,000 contributors from local governments.

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

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2024, indicated a \$2,675 million funding surplus for basic pension benefits on a going concern basis.

The next valuation will be as at December 31, 2027.

The Township paid \$1,573,009 (2024 - \$1,544,930) for employer contributions while employees contributed \$1,352,273 (2024 - \$1,324,890) to the plan in fiscal 2024.

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 the 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 Employee locals. The Trust's sole purpose is to provide a long-term disability income benefit plan. The Township and its employees each contribute equal amounts into the Trust. The total plan provision for approved and unreported claims was actuarially determined as of December 31, 2024. At December 31, 2024, the total plan provision for approved and unreported claims was \$31,688,000 with a net deficit of \$4,356,410. The actuary does not attribute portions of the unfunded liability to individual employers. The Township paid \$94,516 (2024 - \$89,355) for employer contributions in fiscal 2025.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

7. Tangible capital assets

Cost	Balance		Disposals/ transfers	Balance	
	December 31, 2024	Additions		December 31, 2025	
Land and land improvements	\$ 47,578,189	\$ 364,656	\$ -	\$ 47,942,845	
Building and building improvements	42,772,264	1,035,406	(30,298)	43,777,372	
Vehicles, machinery and equipment	15,013,982	2,240,513	(876,021)	16,378,474	
Water and wastewater infrastructure	28,320,614	751,995	-	29,072,609	
Roads infrastructure	49,855,708	4,741,710	(134,328)	54,463,090	
Work in progress	11,644,250	11,406,709	(2,707,143)	20,343,816	
Total	<u>\$ 195,185,007</u>	<u>\$ 20,540,989</u>	<u>\$ (3,747,790)</u>	<u>\$ 211,978,206</u>	

Accumulated amortization	Balance		Amortization expense	Balance	
	December 31, 2024	Disposals		December 31, 2025	
Land and land improvements	\$ 13,146,065	\$ -	\$ 440,819	\$ 13,586,884	
Building and building improvements	17,576,018	(17,572)	1,400,600	18,959,046	
Vehicles, machinery and equipment	9,677,381	(249,208)	692,628	10,120,801	
Water and wastewater infrastructure	15,305,971	-	396,910	15,702,881	
Roads infrastructure	28,618,469	(110,969)	1,514,639	30,022,139	
Total	<u>\$ 84,323,904</u>	<u>\$ (377,749)</u>	<u>\$ 4,445,596</u>	<u>\$ 88,391,751</u>	

Net book value	Balance		Balance	
	December 31, 2024		December 31, 2025	
Land and land improvements	\$ 34,432,124		\$ 34,355,961	
Building and building improvements	25,196,246		24,818,326	
Vehicles, machinery and equipment	5,336,601		6,257,673	
Water and wastewater infrastructure	13,014,643		13,369,728	
Roads infrastructure	21,237,239		24,440,951	
Work in progress	11,644,250		20,343,816	
Total	<u>\$ 110,861,103</u>		<u>\$ 123,586,455</u>	

Contributed tangible capital assets are recognized at fair market value at the date of contribution. There were contributed tangible capital assets having a value of \$1,158,354 during the year (2024 - \$183,067).

The Township has entered into a contract for the construction of a new public safety building. The total contract value is \$28,647,571, with estimated remaining payments of \$15,138,771 to be paid over the next fiscal year.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

8. Accumulated surplus

Accumulated surplus includes unappropriated operating funds and various appropriated operating accounts and reserve funds.

	2025	2024
Surplus		
Equity in tangible capital assets	\$ 91,606,311	\$ 77,611,041
Unappropriated operating funds	11,691,036	10,411,833
	<u>103,297,347</u>	<u>88,022,874</u>
Appropriated operating funds		
Public safety building	24,871,303	35,489,443
Future expenditures	980,003	1,570,911
Casino revenue	357,261	460,661
Community Impact Fund	620,284	534,921
Community Works Fund	2,705,487	2,523,308
Uncollected taxes	100,000	100,000
Working capital	400,000	400,000
	<u>30,034,338</u>	<u>41,079,244</u>
Reserve funds set aside for specific purposes by Council		
Capital Projects	6,295,775	4,891,228
Local Improvement	240,650	229,346
Machinery and Equipment	1,599,739	2,559,506
Municipal Archives Trust	5,017	4,885
Parkland Acquisition	1,284,176	1,248,460
Tax Sale Lands	140,461	136,554
Sustainability	617,545	595,124
Eva Chafe	32,438	31,536
Infrastructure and Revitalization	1,994,680	2,691,765
Public Art	142,946	123,308
Growing Communities Fund	5,278,237	5,131,423
	<u>17,631,664</u>	<u>17,643,135</u>
	<u>\$ 150,963,349</u>	<u>\$ 146,745,253</u>

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

Information about the Growing Communities Fund Grant is as follows:

	2025	2024
Growing Communities Fund, beginning of year	\$ 5,131,423	\$ 4,895,432
Interest earned	146,814	235,991
	<u>\$ 5,278,237</u>	<u>\$ 5,131,423</u>

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

9. Taxes

	2025	2024
Taxes for municipal purposes:		
Property tax	\$ 25,766,977	\$ 22,844,416
Local Improvement	4,686	4,686
1% Utility tax	265,100	258,454
	\$ 26,036,763	\$ 23,107,556

As well as taxes for its own purposes, the Township 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.

Taxes, requisitions and levies collected on behalf of the following agencies are not included in these statements:

	2025	2024
Province of British Columbia - school purposes	\$ 8,276,468	\$ 7,750,833
Capital Regional District - requisition	4,605,860	4,082,978
Capital Regional District - 9-1-1 call answer levy	45,299	49,645
Capital Regional Hospital District - requisition	858,702	859,273
British Columbia Assessment Authority	274,797	267,005
British Columbia Transit - Victoria Regional Transit Commission	2,830,815	2,045,685
Municipal Finance Authority	1,401	1,381
	\$ 16,893,342	\$ 15,056,800

10. Payments in place of taxes

	2025	2024
Payments in place of taxes received for municipal purposes:		
Federal government	\$ 14,711,320	\$ 13,759,850
British Columbia Hydro & Power Authority	160,227	150,240
Provincial Rental Housing Corporation	3,628	3,178
	\$ 14,875,175	\$ 13,913,268

Payments in place of taxes collected on behalf of the following agencies are not included in these statements:

	2025	2024
Province of British Columbia - school purposes	\$ 3,078,858	\$ 2,969,281
Capital Regional District	2,498,126	2,231,323
Capital Regional Hospital District	338,614	344,338
British Columbia Assessment Authority	167,091	167,506
British Columbia Transit - Victoria Regional Transit Commission	1,654,451	1,218,272
Municipal Finance Authority	553	558
	\$ 7,737,693	\$ 6,931,278

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

11. Transfers from other governments

	2025	2024
Conditional transfers from other governments		
Federal	\$ 862,457	\$ 1,010,874
Provincial	934,233	684,350
Other agencies	107,048	82,000
	<u>1,903,738</u>	<u>1,777,224</u>
Unconditional transfers from other governments		
Small communities protection	172,000	196,800
Traffic fine revenue sharing	304,000	297,000
	<u>476,000</u>	<u>493,800</u>
	<u>\$ 2,379,738</u>	<u>\$ 2,271,024</u>

12. Commitments and contingencies

(a) MFA debt reserve fund deposits

Under borrowing arrangements with the MFA, the Township 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 totalling \$454,474 (2024 - \$477,257) are included in the Township's financial assets as restricted cash and are held by the MFA as security against the possibility of debt repayment default. At December 31, 2025, there were contingent demand notes of \$621,757 (2024 - \$677,371), which are not recorded in the financial statements of the Township. If the debt is repaid without default, the deposits are refunded to the Township and demand notes are cancelled.

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

(c) The Township 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 Township entered into a long-term contract with the City of Victoria and the Victoria and Esquimalt Police Board (the "Police Board") effective January 1, 2014 and extending until December 31, 2023. During the year, a one year contract extension was negotiated to December 31, 2025 with the option of one remaining extension. Under the terms of this contract, the Township will continue to fund a percentage of the annual police budget. No other conditions of the initial contract have changed.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

12. Commitments and contingencies (continued)

- (e) In February 2017, the Township entered into agreements with the Capital Regional District related to the hosting for the Core Area Wastewater Treatment Facility. These agreements outline the amenities to be received by the Township, which include annualized payments for the duration of the facility's useful life, allowances for the restoration of transportation infrastructure and funding to be used for the purposes of public safety, recreation facility and waterfront park improvements. For 2025, the Township received an annualized payment of \$69,958 (2024 - \$67,986).
- (f) The Township entered into a five year agreement with the City of Surrey effective September 19, 2023. Under the terms of the agreement, the City of Surrey will provide emergency dispatch and non-emergency after hour call answering services for the Township. The annual charge to the Township will be based on actual costs for the calendar year, including any adjustments for changes in calls for service, labour costs, and inflation costs as determined in the agreement. In 2025, the Township paid \$76,041 (2024 - \$66,000).
- (g) The Township is a defendant in various lawsuits. An accrual is recorded in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. The remaining claims, should they be successful as a result of litigation, will be recorded when a liability is likely and determinable. The Township is self-insured through membership in the Municipal Insurance Association of British Columbia. Under this program, member municipalities are to share jointly for general liability claims against any member in excess of \$10,000. Should the Association pay out claims in excess of premiums received, it is possible that the Township, along with the other participants, would be required to contribute towards the deficit.

13. Budget

The budget presented in these financial statements is based upon the 2025-2029 Financial Plan Bylaw adopted by Council on May 5, 2025 and has been adjusted to comply with Canadian Public Sector Accounting Standards. The table below reconciles the budget approved in the financial plan bylaw to the budget reported in these financial statements.

Financial Plan budgeted surplus (deficit) for the year	\$	-
Add		
Capital expenditures		48,970,154
Debt repayments		1,057,384
Transfers to reserves		3,513,725
Transfers to operating reserves		1,253,357
Less		
Transfers from reserves		(7,511,171)
Transfers from surplus		(6,000,000)
Transfers from operating reserves		(6,567,726)
Proceeds from debt		(30,197,632)
Budgeted surplus as presented in financial statements	<u>\$</u>	<u>4,518,091</u>

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

14. Financial risks and concentration of credit risk

(a) Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Township is exposed to credit risk with respect to the cash and cash equivalents, property taxes receivable, accounts receivable, and MFA debt reserve cash.

The Township assesses, on a continuous basis, accounts receivable, and property taxes receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Township at December 31, 2025 is the carrying value of these assets.

The carrying amount of accounts receivable and property taxes receivable is valued with consideration for an allowance for doubtful accounts. The amount of any related impairment loss is recognized in the Statement of Operations and Accumulated Surplus. Subsequent recoveries of impairment losses related to accounts receivable and property taxes receivable are credited to the Statement of Operations and Accumulated Surplus. The balance of the allowance for doubtful accounts at December 31, 2025 is \$nil (2024 - \$nil).

As at December 31, 2025, \$57,124 (2024 - \$172,096) of trade accounts receivable were past due, but not impaired.

There have been no significant changes to credit risk exposure from 2024.

(b) Liquidity risk

Liquidity risk is the risk that the Township will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Township manages its liquidity risk by monitoring its operating requirements. The Township prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

The contractual maturities of short and long-term debt are disclosed in Note 5.

There have been no significant changes to liquidity risk exposure from 2024.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or tariffs, will affect the Township's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

14. Financial risks and concentration of credit risk (continued)

(c) Market risk (continued)

(i) Foreign exchange risk

Foreign exchange risk arises as a result of exchange rate fluctuations and the volatility of these rates. The Township does not have any material transactions during the year or financial instruments denominated in foreign currencies at year end.

There have been no significant changes to the foreign exchange risk exposure from 2024.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

There may be interest rate risk on long term debt issued by the Municipal Finance Authority as rates may be reset after the end of the first ten year term, followed by subsequent interest rate resets every five years thereafter. Interest on short term debt is based on floating interest rates. The Township's debt is disclosed in Note 5.

There has been no change to the interest rate risk exposure from 2024.

15. Segmented information

The Township is a diversified municipal organization that provides a wide range of services to its citizens. For management reporting purposes, the Township's operations and activities are organized and reported by service area. 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 general government operations provide the functions of building services and maintenance, corporate administration, finance, human resources, legislative services and any other functions categorized as non-departmental.

(b) Protective Services

Protective services is comprised of four functions, including the Township's community safety and emergency program services, fire, police and regulatory and development services. The emergency program services prepare the Township to be more prepared and able to respond to, recover from, and be aware of the devastating effects of a disaster or major catastrophic event that will impact the community. The fire department is responsible for providing critical, life-saving services in preventing or minimizing the loss of life and property from fire and natural or man-made emergencies.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

15. Segmented information (continued)

(b) Protective Services (continued)

The police services, provided by the City of Victoria, ensure the safety of the lives and property of the Township as well as Victoria citizens through the enforcement of municipal bylaws, criminal laws and the laws of British Columbia, the maintenance of law and order, and the prevention of crime. The mandate of the regulatory and development services is to promote, facilitate and enforce general compliance with the provisions of bylaws that pertain to the health, safety and welfare of the community and to provide a full range of planning services related to zoning, development permits, variance permits and current regulatory issues.

(c) Transportation

Transportation services is responsible for a wide variety of transportation functions such as parking, engineering operations and street maintenance management. This department provides infrastructure, traffic control and transportation planning services, as well as providing services related to infrastructure, land development impacts on transportation, traffic management, pedestrian and cycling issues and on-street parking regulations.

(d) Environmental Health

Environmental and health services include solid waste services and services related to sanitary and storm sewer systems. Solid waste services include collection of solid waste, household garbage and compost. Sanitary and sewer services include the construction and maintenance of the sewer distribution systems to protect the environment and public health from the impacts of liquid wastes generated as a result of human occupation and development in the Township.

(e) Environmental Development

Environmental development works to achieve the Township's community planning goals through the official community plan, neighbourhood plans, special sector and precinct plans and urban design and other policy initiatives. The department is also responsible for the heritage program, downtown vitality and public use of space.

(f) Recreation, Parks and Culture

Recreation services facilitates the provision of recreation and wellness programs and services through the Township's pool, arena, community and seniors' centres. The parks department preserves and enhances green spaces on public lands and is responsible for the maintenance, planning and development of all park facilities such as ornamental gardens, natural ecosystems, sport and entertainment venues and playgrounds for recreational and cultural enjoyment in a beautiful and safe environment. The cultural department is responsible for co-ordinating and leading efforts to enhance our neighbourhoods, fostering arts and culture, and working to create a Township that is vibrant and people-centric.

Certain allocation methodologies have been employed in the preparation of the segmented financial information. The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

14. Segmented information (continued)

	General government	Protective services	Transportation	Environmental health	Environmental development	Recreation, parks and culture	2025
Revenues:							
Taxation	\$ 40,911,938	\$ -	\$ -	\$ -	\$ -	\$ -	40,911,938
Goods and services	5,689,033	143,493	411,359	704,339	12,921	4,872,636	11,833,781
Government transfers	1,332,110	389,986	384,850	-	41,853	230,939	2,379,738
Total revenue	47,933,081	533,479	796,209	704,339	54,774	5,103,575	55,125,457
Expenses:							
Salary and wages	3,814,756	7,214,929	2,636,835	662,543	880,773	8,507,265	23,717,101
Materials, supplies and services	2,800,949	11,862,156	1,467,605	1,132,323	156,766	4,154,449	21,574,248
Interest and other	33,736	903,000	1,782	231,898	-	-	1,170,416
Amortization	636,780	227,222	1,886,320	377,124	-	1,318,150	4,445,596
Total expenses	7,286,221	20,207,307	5,992,542	2,403,888	1,037,539	13,979,864	50,907,361
Annual surplus (deficit)	\$ 40,646,860	\$ (19,673,828)	\$ (5,196,333)	\$ (1,699,549)	\$ (982,765)	\$ (8,876,289)	4,218,096

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year Ended December 31, 2025

14. Segmented information (continued)

	General government	Protective services	Transportation	Environmental health	Environmental development	Recreation, parks and culture	2024
Revenues:							
Taxation	\$ 37,020,824	\$ -	\$ -	\$ -	\$ -	\$ -	37,020,824
Goods and services	5,962,552	155,783	549,895	577,378	58,000	4,573,889	11,877,497
Government transfers	1,471,563	297,000	91,744	-	-	410,717	2,271,024
Total revenue	44,454,939	452,783	641,639	577,378	58,000	4,984,606	51,169,345
Expenses:							
Salary and wages	3,432,401	6,575,424	2,532,643	564,868	839,204	8,052,269	21,996,809
Materials, supplies and services	1,913,009	10,612,682	1,389,205	1,249,354	140,792	3,730,021	19,035,063
Interest and other	45,891	903,000	3,786	153,365	-	28,307	1,134,349
Amortization	664,986	230,488	1,674,150	402,080	-	1,256,927	4,228,631
Total expenses	6,056,287	18,321,594	5,599,784	2,369,667	979,996	13,067,524	46,394,852
Annual surplus (deficit)	\$ 38,398,652	\$ (17,868,811)	\$ (4,958,145)	\$ (1,792,289)	\$ (921,996)	\$ (8,082,918)	\$ 4,774,493