

Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF ESQUIMALT**

Year ended December 31, 2017

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CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Financial Statements

Year ended December 31, 2017

Financial Statements

Management's Responsibility for the Financial Statements	1
Independent Auditors' Report	2
Statement of Financial Position	4
Statement of Operations and Accumulated Surplus	5
Statement of Change in Net Financial Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	8

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 auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to Council's approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the Township. The accompanying Independent Auditors' 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

December 31, 2017 with comparative information for 2016

	2017	2016
Financial assets:		
Cash and cash equivalents (note 2)	\$ 28,894,270	\$ 25,748,089
Property taxes receivable	490,899	501,025
Accounts receivable	776,411	827,408
MFA debt reserve cash (note 12(b))	227,827	223,469
	<u>30,389,407</u>	<u>27,299,991</u>
Liabilities:		
Accounts payable and accrued liabilities	8,604,009	7,983,247
Deferred revenue and deposits (note 3)	3,356,897	2,080,339
Debt (note 4)	7,765,172	8,900,890
Obligations under short term borrowing (note 5)	34,005	50,097
Employee benefit and retirement obligations (note 6)	1,080,842	991,633
	<u>20,840,925</u>	<u>20,006,206</u>
Net financial assets	<u>9,548,482</u>	<u>7,293,785</u>
Non-financial assets:		
Tangible capital assets (note 7)	82,827,161	82,037,082
Inventory of supplies	126,689	131,146
Prepaid expenses	122,623	99,510
	<u>83,076,473</u>	<u>82,267,738</u>
Commitments and contingencies (note 12)		
Accumulated surplus (note 8)	<u>\$ 92,624,955</u>	<u>\$ 89,561,523</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, 2017 with comparative information for 2016

	Financial plan (note 13)	2017	2016
Revenues:			
Taxes for municipal purposes (note 9)	\$ 15,492,413	\$ 15,591,975	\$ 15,386,828
Payments in place of taxes (note 10)	12,637,887	12,631,127	12,612,222
Sale of services	3,189,393	3,489,914	3,259,558
Other revenue from own sources	754,610	3,054,872	1,388,976
Conditional transfers from other governments (note 11)	1,141,540	1,219,383	1,255,129
Unconditional transfers from other governments (note 11)	598,722	578,985	595,310
Total revenue	33,814,565	36,566,256	34,498,023
Expenses:			
General government	4,147,786	3,478,644	3,725,462
Protective services	12,652,298	12,944,164	12,331,201
Transportation	3,375,393	4,577,312	4,336,627
Environmental health	1,046,648	1,525,356	1,521,243
Environmental development	987,869	917,477	883,147
Recreation, parks and culture	9,075,382	10,059,871	9,535,515
Total expenses	31,285,376	33,502,824	32,333,195
Annual surplus	2,529,189	3,063,432	2,164,828
Accumulated surplus, beginning of year	89,561,523	89,561,523	87,396,695
Accumulated surplus, end of year	\$ 92,090,712	\$ 92,624,955	\$ 89,561,523

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, 2017 with comparative information for 2016

	Financial plan (note 13)	2017	2016
Annual surplus	\$ 2,529,189	\$ 3,063,432	\$ 2,164,828
Contributed tangible capital assets	-	(152,560)	-
Acquisition of tangible capital assets	(7,582,152)	(7,811,543)	(3,109,764)
Amortization of tangible capital assets	-	3,473,266	3,382,589
Proceeds on disposal of tangible capital assets	-	4,618,950	535
Loss (gain) on disposal of tangible capital assets	-	(918,192)	55,799
	(7,582,152)	(790,079)	329,159
Acquisition of inventory supplies	-	(126,689)	(131,146)
Consumption of inventory supplies	-	131,146	110,681
Acquisition of prepaid expenses	-	(122,623)	(99,510)
Consumption of prepaid expenses	-	99,510	204,557
		(18,656)	84,582
Change in net financial assets (debt)	(5,052,963)	2,254,697	2,578,569
Net financial assets, beginning of year	7,293,785	7,293,785	4,715,216
Net financial assets, end of year	\$ 2,240,822	\$ 9,548,482	\$ 7,293,785

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, 2017 with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities		
Annual surplus	\$ 3,063,432	\$ 2,164,828
Items not involving cash:		
Contributed tangible capital assets	(152,560)	-
Amortization of tangible capital assets	3,473,266	3,382,589
Change in employee benefits and other liabilities	89,209	(43,006)
Actuarial adjustment on debt	(321,238)	(284,621)
Loss (gain) on disposal of tangible capital assets	(918,192)	55,799
Change in non-cash operating assets and liabilities:		
Property taxes receivable	10,126	750,416
Accounts receivable	50,997	467,977
MFA debt reserve fund cash	(4,358)	(6,076)
Accounts payable and accrued liabilities	620,762	(188,242)
Deferred revenue and deposits	1,276,558	(263,222)
Inventory of supplies	4,457	(20,465)
Prepaid expenses and deposits	(23,113)	105,047
	7,169,346	6,121,024
Capital activities:		
Acquisition of tangible capital assets	(7,811,543)	(3,109,764)
Proceeds on disposal of tangible capital assets	4,618,950	535
	(3,192,593)	(3,109,229)
Financing activities:		
Short term loan obligation repaid	(16,092)	(18,253)
Debt issued	-	750,000
Debt principal repaid	(814,480)	(634,480)
	(830,572)	97,267
Increase in cash and cash equivalents	3,146,181	3,109,062
Cash and cash equivalents, beginning of year	25,748,089	22,639,027
Cash and cash equivalents, end of year	\$ 28,894,270	\$ 25,748,089
Supplemental cash flow information:		
Cash paid for interest	\$ 400,937	\$ 421,842
Cash received from interest	577,451	532,452

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, 2017

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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

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 expenditures are incurred, services performed, or the tangible capital assets are acquired thereby extinguishing the related liability.

(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) 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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(j) 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 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 in years
Land improvements	15 - 50
Building and building improvements	10 - 40
Vehicles, machinery and equipment	3 - 30
Water and wastewater infrastructure	25 - 60
Roads infrastructure	20 - 80

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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(j) Non-financial assets (continued):

(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 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 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. Significant estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets and estimating provisions for accrued liabilities including employee future benefits. Actual results could differ from those estimates.

(l) 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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

1. Significant accounting policies (continued):

(m) Comparative figures:

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

2. Cash and cash equivalents:

	2017	2016
Cash and bank deposits	\$ 1,596,295	\$ 983,021
Municipal Finance Authority Money Market Funds	27,297,975	24,765,068
	\$ 28,894,270	\$ 25,748,089

3. Deferred revenue and deposits:

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

	2017	2016
Trust and deposit liabilities	\$ 1,868,223	\$ 764,746
Unearned recreation fees	277,721	200,013
Property tax instalments	898,122	861,360
Miscellaneous	312,831	254,220
	\$ 3,356,897	\$ 2,080,339

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

4. Debt:

Bylaw	Purpose	Matures	Rate	Original Amount	Repayments and Actuarial Earnings	Net Balance	
						2017	2016
<u>General Capital</u>							
2492	Recreation Centre	2023/03/10	4.775%	\$ 2,800,000	\$ 1,679,831	\$ 1,120,169	\$ 1,281,791
2492	Recreation Centre	2022/03/12	5.370%	4,000,000	2,620,379	1,379,621	1,620,053
2834	Roads and Streets	2024/10/14	3.000%	1,200,000	314,668	885,332	994,361
				8,000,000	4,614,878	3,385,122	3,896,205
<u>Sewer Capital</u>							
2565	Sanitary Sewers	2027/12/01	4.820%	2,353,000	951,816	1,401,184	1,514,021
2565	Sanitary Sewers	2026/10/19	4.430%	1,129,000	515,409	613,591	670,161
2565	Sanitary Sewers	2025/10/13	4.170%	2,012,000	1,027,230	984,770	1,091,512
2565	Sanitary Sewers	2024/02/12	4.975%	1,256,000	675,495	580,505	648,991
				6,750,000	3,169,950	3,580,050	3,924,685
<u>General Capital Short Term</u>							
LUA-Oct 27/14	Recreation Centre	2020/03/25	1.380%	550,000	-	200,000	330,000
LUA-Jun 27/16	Recreation Centre	2021/06/27	1.380%	750,000	-	600,000	750,000
				1,300,000	-	800,000	1,080,000
				\$ 16,050,000	\$ 7,784,828	\$ 7,765,172	\$ 8,900,890

In 2002, the Council of the Township adopted Bylaw No. 2492 to authorize the borrowing for estimated renovation and upgrade costs for the Esquimalt Recreation Centre in the sum of \$6,800,000.

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.

In 2014, the Council of the Township adopted Bylaw No. 2834 to authorize the construction of improvements to the Admirals Road corridor and to borrow upon the credit of the Township a sum not to exceed \$1,200,000.

In 2014, the Council of the Township adopted Bylaw No. LUA-Oct 27/14 to authorize the replacement of the front façade of the Archie Browning Sports Centre and to borrow short term upon the credit of the Township a sum not to exceed \$550,000.

In 2016, the Council of the Township adopted Bylaw No. LUA-Jun 27/16 to authorize the development and construction of Fraser Park and to borrow short term upon the credit of the Township a sum not to exceed \$750,000.

Total interest on debt for the year was \$398,728, including accrued interest of \$50,683 (2016 - \$419,669, including accrued interest of \$55,029).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

4. Debt (continued):

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 payments on debt for the next five years are as follows:

2018	\$	794,480
2019		794,480
2020		684,480
2021		684,480
2022		534,480

5. Obligations under short term borrowing:

The Township financed specific municipal hall and recreation department equipment by entering into fixed interest rate short term loans with the MFA. Repayments due are as shown.

2018	\$	16,402
2019		15,485
2020		2,899
Total minimum payments		34,786
Less: Amounts representing interest (at prime plus 1%)		(781)
Present value of net minimum capital lease payments	\$	34,005

Total interest on repayments for the year was \$643 (2016 - \$1,023).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

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:

	2017	2016
Accrued benefit obligation, beginning of year	\$ 991,633	\$ 1,034,639
Service cost	105,200	95,500
Interest cost	39,600	35,200
Benefits payments	(52,300)	(174,600)
Past agreement refund accrual	(3,291)	894
Accrued benefit obligation, end of year	\$ 1,080,842	\$ 991,633

The actuarially accrued benefit obligation set out in the actuarial valuation is \$1,210,200 (2016 - \$1,049,900), resulting in a variance of \$129,358 between the obligation and the accrued benefit liability of \$1,080,842 (2016 - \$991,633). The variance is composed of the following two amounts: an actuarial net loss of \$158,000 (2016 - \$84,700) and the special agreement refund accrual of \$28,642 (2016 - \$26,433). 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 \$139,300 (2016 - \$124,300).

The accrued benefit obligations and the net periodic benefit cost were estimated by actuarial valuation as of July 31, 2016. At December 31, 2017, 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:

	2017	2016
Discount rates	3.00%	3.50%
Expected inflation rate	2.50%	2.50%
Expected wage and salary increase, based on age and gender	2.58% - 4.63%	2.58% - 4.63%

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

6. Employee benefit and retirement obligations (continued):

Municipal Pension Plan

The Township and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for administering the Plan, including investment of 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, 2016, the Plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 38,000 contributors from local government.

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

The most recent valuation for the Plan as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2018 with results available in 2019.

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.

The Township paid \$1,047,537 (2016 - \$990,330) for employer contributions while employees contributed \$879,341 (2016 - \$871,884) to the plan in fiscal 2017.

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, 2014. At December 31, 2016, the total plan provision for approved and unreported claims was \$18,937,267 with a net surplus or \$392,313. The actuary does not attribute portions of the unfunded liability to individual employers. The Township paid \$73,464 (2016 - \$71,782) for employer contributions in fiscal 2017.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

7. Tangible capital assets:

Cost	Balance December 31, 2016	Additions	Disposals/ transfers	Balance December 31, 2017
Land and land improvements	\$ 41,751,525	\$ 7,567,337	\$ (3,699,537)	\$ 45,619,325
Building and building improvements	24,331,631	390,264	(14,975)	24,706,920
Vehicles, machinery and equipment	10,642,629	355,478	(81,951)	10,916,156
Water and wastewater infrastructure	24,657,529	399,894	-	25,057,423
Roads infrastructure	37,226,067	811,672	-	38,037,739
Work in progress	1,636,922	9,951	(1,570,493)	76,380
Total	\$ 140,246,303	\$ 9,534,596	\$ (5,366,956)	\$ 144,413,943

Accumulated amortization	Balance December 31, 2016	Disposals	Amortization expense	Balance December 31, 2017
Land and land improvements	\$ 10,320,606	\$ -	\$ 307,364	\$ 10,627,970
Building and building improvements	11,040,447	(13,754)	847,013	11,873,706
Vehicles, machinery and equipment	5,954,061	(81,951)	627,074	6,499,184
Water and wastewater infrastructure	12,017,450	-	407,335	12,424,785
Roads infrastructure	18,876,657	-	1,284,480	20,161,137
Total	\$ 58,209,221	\$ (95,705)	\$ 3,473,266	\$ 61,586,782

Net book value	Balance December 31, 2016	Balance December 31, 2017
Land and land improvements	\$ 31,430,919	\$ 34,991,355
Building and building improvements	13,291,184	12,833,214
Vehicles, machinery and equipment	4,688,568	4,416,972
Water and wastewater infrastructure	12,640,079	12,632,638
Roads infrastructure	18,349,410	17,876,602
Work in progress	1,636,922	76,380
Total	\$ 82,037,082	\$ 82,827,161

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

7. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$76,380 (2016 - \$1,636,922) have not been amortized. Amortization of these assets will commence when the asset is available for service.

(b) Contributed tangible capital assets

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 \$152,560 during the year (2016 - \$nil).

(c) Tangible capital assets disclosed at nominal values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category to which nominal values were assigned.

(d) Works of art and historical treasures

The Township manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at Township sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(e) Write-down of tangible capital assets

There were no write-downs of tangible capital assets during the year (2016 - \$nil).

(f) Accrual and disposal of tangible capital asset

The tangible capital asset land, which was disposed of in the current year, was adjusted for the estimated cost obligation for remediation in the amount of \$647,044.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

8. Accumulated surplus:

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

	2017	2016
Surplus:		
Equity in tangible capital assets	\$ 75,027,984	\$ 73,086,095
Unappropriated operating funds	8,269,982	5,057,402
	<u>83,297,966</u>	<u>78,143,497</u>
Appropriated operating funds:		
Future expenditures	694,094	687,843
Casino revenue	309,963	254,972
Community Works Fund	1,951,104	1,927,695
Library Reserve Fund	140,000	-
Community Impact Fund	55,000	-
Uncollected taxes	100,000	100,000
Working capital	400,000	400,000
	<u>3,650,161</u>	<u>3,370,510</u>
Reserve funds set aside for specific purposes by Council:		
Capital Projects	1,951,874	1,677,118
Local Improvement	164,374	158,114
Machinery and Equipment	2,371,264	2,326,492
Municipal Archives Trust	3,693	2,992
Parkland Acquisition	85,197	84,369
Tax Sale Lands	116,321	115,190
Sustainability	174,101	157,232
Eva Chafe	33,624	33,297
Infrastructure and Revitalization	751,480	3,480,703
Public Art	24,900	12,009
	<u>5,676,828</u>	<u>8,047,516</u>
	<u>\$ 92,624,955</u>	<u>\$ 89,561,523</u>

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

9. Taxes:

	2017	2016
Taxes for municipal purposes:		
Property tax	\$ 15,350,166	\$ 15,140,352
Local Improvement	4,686	4,686
1% Utility tax	237,123	241,790
	\$ 15,591,975	\$ 15,386,828

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.

	2017	2016
Taxes, requisitions and levies collected on behalf of the following agencies are not included in these statements:		
Province of British Columbia - school purposes	\$ 5,059,036	\$ 5,288,532
Capital Regional District - requisition	2,191,494	2,110,509
Capital Regional District - 9-1-1 call answer levy	45,417	46,270
Capital Regional Hospital District - requisition	874,119	864,755
British Columbia Assessment Authority	166,656	178,067
British Columbia Transit - Victoria Regional Transit Commission	818,624	862,493
Municipal Finance Authority	679	597
	\$ 9,156,025	\$ 9,351,223

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

10. Payments in place of taxes:

	2017	2016
Payments in place of taxes received for municipal purposes:		
Federal government	\$ 12,535,793	\$ 12,520,748
British Columbia Hydro & Power Authority	92,816	88,970
Provincial Rental Housing Corporation	2,518	2,504
	\$ 12,631,127	\$ 12,612,222
Payments in place of taxes collected on behalf of the following agencies are not included in these statements:		
Province of British Columbia - school purposes	\$ 2,721,820	\$ 2,925,458
Capital Regional District	1,772,026	1,718,520
Capital Regional Hospital District	503,091	537,146
British Columbia Assessment Authority	165,081	168,240
British Columbia Transit - Victoria Regional Transit Commission	662,632	747,034
Municipal Finance Authority	396	376
	\$ 5,825,046	\$ 6,096,774

11. Transfers from other governments:

	2017	2016
Conditional transfers from other governments:		
Federal	\$ 799,020	\$ 750,916
Provincial	381,363	499,213
Other agencies	39,000	5,000
	1,219,383	1,255,129
Unconditional transfers from other governments:		
Small communities protection	244,202	241,873
Traffic fine revenue sharing	334,783	353,437
	578,985	595,310
Total transfers from other governments	\$ 1,798,368	\$ 1,850,439

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

12. Commitments and contingencies:

(a) Contractual commitments:

At December 31, 2017, the following major contracts were in progress:

	Total amount of contract	Paid on contract to December 31, 2017
IPI Tech Inc.	\$ 184,005	\$ 94,838
Whistler Centre for Sustainability	48,000	2,575
SLR (Consulting) Canada Ltd.	233,253	203,127
	\$ 465,258	\$ 300,540

(b) 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 \$227,827 (2016 - \$223,469) 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, 2017, there were contingent demand notes of \$464,917 (2016 - \$464,917), 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.

(c) 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.

(d) 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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

12. Commitments and contingencies (continued):

- (e) 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. Under the terms of this contract, the Township is responsible to fund a percentage of the annual police budget. The 2018 required contributions on behalf of the Township are \$7,944,657 (14.7% of the Police Board budget). Further contributions may be required by the Township in respect to the settlement of claims and insurance deductibles, or in the event that insufficient funds are available to the Police Board in the event of a deficit. The extent of any further contributions will be recorded when a liability is likely and determinable.
- (f) 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 of \$55,000 for the duration of the facility's useful life, allowances for the restoration of transportation infrastructure and a total of \$17,000,000 to be held in Township reserve funds for the purposes of public safety, recreation facility and waterfront park improvements.
- (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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

13. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2017 operating and capital financial plan approved by Council on April 24, 2017. Amortization, a non-cash item, was not included in the development of the financial plan and, as such, has not been budgeted. The chart below reconciles the approved financial plan to the financial plan figures reported in these financial statements.

	Financial plan amount
Revenues:	
Operating budget	\$ 42,624,866
Less:	
Transfer from other funds	(8,810,301)
Proceeds on debt issue	-
Total revenue	33,814,565
Expenses:	
Operating budget	42,624,866
Less:	
Capital expenditures	(7,582,152)
Transfer to other funds	(2,942,856)
Debt principal payments	(814,482)
Total expenses	31,285,376
Annual surplus	\$ 2,529,189

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

14. 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.

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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

14. Segmented information (continued):

(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 recycling. 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 to co-ordinate and lead efforts to enhance our neighbourhoods, foster arts and culture, and work 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, 2017

14. Segmented information (continued):

2017	General government	Protective services	Transportation	Environmental health	Environmental development	Recreation, parks and culture	Total
Revenues:							
Taxation	\$ 28,223,102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,223,102
Goods and services	2,966,474	169,457	317,271	258,010	41,332	2,792,242	6,544,786
Government transfers	1,362,639	334,783	48,700	-	-	52,246	1,798,368
Total revenue	32,552,215	504,240	365,971	258,010	41,332	2,844,488	36,566,256
Expenses:							
Salary and wages	2,189,176	4,235,200	1,896,541	335,553	568,235	5,783,037	15,007,742
Materials, supplies and services	962,457	8,507,895	950,048	606,460	349,242	3,244,777	14,620,879
Interest and other	2,209	-	17,020	194,508	-	187,200	400,937
Amortization	324,802	201,069	1,713,703	388,835	-	844,857	3,473,266
Total expenses	3,478,644	12,944,164	4,577,312	1,525,356	917,477	10,059,871	33,502,824
Annual surplus (deficit)	\$ 29,073,571	\$ (12,439,924)	\$ (4,211,341)	\$ (1,267,346)	\$ (876,145)	\$ (7,215,383)	\$ 3,063,432

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2017

14. Segmented information (continued):

2016	General government	Protective services	Transportation	Environmental health	Environmental development	Recreation, parks and culture	Total
Revenues:							
Taxation	\$ 27,999,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,999,050
Goods and services	1,336,463	104,936	209,634	208,517	44,071	2,744,913	4,648,534
Government transfers	1,305,601	353,637	140,483	-	20,572	30,146	1,850,439
Total revenue	30,641,114	458,573	350,117	208,517	64,643	2,775,059	34,498,023
Expenses:							
Salary and wages	2,229,765	4,037,095	1,743,096	341,152	534,996	5,610,323	14,496,427
Materials, supplies and services	1,190,236	8,103,319	873,667	561,126	348,151	2,955,838	14,032,337
Interest and other	2,173	-	7,704	224,765	-	187,200	421,842
Amortization	303,288	190,787	1,712,160	394,200	-	782,154	3,382,589
Total expenses	3,725,462	12,331,201	4,336,627	1,521,243	883,147	9,535,515	32,333,195
Annual surplus (deficit)	\$ 26,915,652	\$ (11,872,628)	\$ (3,986,510)	\$ (1,312,726)	\$ (818,504)	\$ (6,760,456)	\$ 2,164,828