

Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF ESQUIMALT**

Year ended December 31, 2018

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Financial Statements

Year ended December 31, 2018

Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of the Corporation of the 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, 2018 with comparative information for 2017

	2018	2017
Financial assets:		
Cash and cash equivalents (note 2)	\$ 47,828,594	\$ 28,894,270
Property taxes receivable	492,692	490,899
Accounts receivable	726,781	776,411
MFA debt reserve cash (note 12(b))	232,784	227,827
	<u>49,280,851</u>	<u>30,389,407</u>
Liabilities:		
Accounts payable and accrued liabilities	8,629,474	8,604,009
Deferred revenue and deposits (note 3)	20,165,666	3,356,897
Debt (note 4)	6,621,053	7,765,172
Obligations under short term borrowing (note 5)	18,200	34,005
Employee benefit and retirement obligations (note 6)	1,204,394	1,080,842
	<u>36,638,787</u>	<u>20,840,925</u>
Net financial assets	12,642,064	9,548,482
Non-financial assets:		
Tangible capital assets (note 7)	81,786,180	82,827,161
Inventory of supplies	153,983	126,689
Prepaid expenses	80,569	122,623
	<u>82,020,732</u>	<u>83,076,473</u>
Commitments and contingencies (note 12)		
Accumulated surplus (note 8)	\$ 94,662,796	\$ 92,624,955

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, 2018 with comparative information for 2017

	Financial plan (note 13)	2018	2017
Revenues:			
Taxes for municipal purposes (note 9)	\$ 16,320,698	\$ 16,310,208	\$ 15,591,975
Payments in place of taxes (note 10)	12,851,151	12,997,197	12,631,127
Sale of services	3,327,071	3,778,670	3,489,914
Other revenue from own sources	802,366	2,242,424	3,054,872
Conditional transfers from other governments (note 11)	1,121,774	1,179,520	1,219,383
Unconditional transfers from other governments (note 11)	598,722	566,086	578,985
Total revenue	35,021,782	37,074,105	36,566,256
Expenses:			
General government	4,145,821	4,404,198	3,478,644
Protective services	13,242,130	13,248,452	12,944,164
Transportation	3,490,447	4,892,638	4,577,312
Environmental health	1,098,563	1,567,945	1,525,356
Environmental development	1,181,196	744,711	917,477
Recreation, parks and culture	9,305,147	10,178,320	10,059,871
Total expenses	32,463,304	35,036,264	33,502,824
Annual surplus	2,558,478	2,037,841	3,063,432
Accumulated surplus, beginning of year		92,624,955	92,624,955
Accumulated surplus, end of year	\$ 95,183,433	\$ 94,662,796	\$ 92,624,955

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, 2018 with comparative information for 2017

	Financial plan (note 13)	2018	2017
Annual surplus	\$ 2,558,478	\$ 2,037,841	\$ 3,063,432
Contributed tangible capital assets	-	(91,488)	(152,560)
Acquisition of tangible capital assets	(6,040,908)	(2,882,159)	(7,811,543)
Amortization of tangible capital assets	-	3,550,759	3,473,266
Proceeds on disposal of tangible capital assets	-	1,000	4,618,950
Loss (gain) on disposal of tangible capital assets	-	462,869	(918,192)
	(6,040,908)	1,040,981	(790,079)
Acquisition of inventory supplies	-	(153,983)	(126,689)
Consumption of inventory supplies	-	126,689	131,146
Acquisition of prepaid expenses	-	(80,569)	(122,623)
Consumption of prepaid expenses	-	122,623	99,510
		14,760	(18,656)
Change in net financial assets (debt)	(3,482,430)	3,093,582	2,254,697
<u>Net financial assets, beginning of year</u>	<u>9,548,482</u>	<u>9,548,482</u>	<u>7,293,785</u>
<u>Net financial assets, end of year</u>	<u>\$ 6,066,052</u>	<u>\$ 12,642,064</u>	<u>\$ 9,548,482</u>

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, 2018 with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities		
Annual surplus	\$ 2,037,841	\$ 3,063,432
Items not involving cash:		
Contributed tangible capital assets	(91,488)	(152,560)
Amortization of tangible capital assets	3,550,759	3,473,266
Change in employee benefits and other liabilities	123,552	89,209
Actuarial adjustment on debt	(359,639)	(321,238)
Loss (gain) on disposal of tangible capital assets	462,869	(918,192)
Change in non-cash operating assets and liabilities:		
Property taxes receivable	(1,793)	10,126
Accounts receivable	49,630	50,997
MFA debt reserve fund cash	(4,957)	(4,358)
Accounts payable and accrued liabilities	25,465	620,762
Deferred revenue and deposits	16,808,769	1,276,558
Inventory of supplies	(27,294)	4,457
Prepaid expenses and deposits	42,054	(23,113)
	22,615,768	7,169,346
Capital activities:		
Acquisition of tangible capital assets	(2,882,159)	(7,811,543)
Proceeds on disposal of tangible capital assets	1,000	4,618,950
	(2,881,159)	(3,192,593)
Financing activities:		
Short term loan obligation repaid	(15,805)	(16,092)
Debt principal repaid	(784,480)	(814,480)
	(800,285)	(830,572)
Increase in cash and cash equivalents	18,934,324	3,146,181
Cash and cash equivalents, beginning of year	28,894,270	25,748,089
Cash and cash equivalents, end of year	\$ 47,828,594	\$ 28,894,270
Supplemental cash flow information:		
Cash paid for interest	\$ 347,579	\$ 400,937
Cash received from interest	944,443	577,451

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, 2018

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, 2018

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, 2018

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, 2018

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) 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.

(l) 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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

2. Cash and cash equivalents:

	2018	2017
Cash and bank deposits	\$ 2,687,267	\$ 1,596,295
Municipal Finance Authority Money Market Funds	45,141,327	27,297,974
	\$ 47,828,594	\$ 28,894,269

3. Deferred revenue and deposits:

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

	2018	2017
Trust and deposit liabilities	\$ 1,667,598	\$ 1,868,223
Unearned recreation fees	291,299	277,721
Property tax instalments	943,535	898,122
McLoughlin Amenity grants	16,985,918	-
Miscellaneous	277,316	312,831
	\$ 20,165,666	\$ 3,356,897

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

4. Debt:

Bylaw	Purpose	Matures	Rate	Original Amount	Repayments and Actuarial Earnings		Net Balance	
					2018	2017	2018	2017
<u>General Capital</u>								
2492	Recreation Centre	2023/03/10	4.775%	\$ 2,800,000	\$ 1,672,832	\$ 1,127,168	\$ 1,120,169	
2492	Recreation Centre	2022/03/12	5.370%	4,000,000	3,049,534	950,466	1,379,621	
2834	Roads and Streets	2024/10/14	3.000%	1,200,000	428,058	771,942	885,332	
				8,000,000	5,150,424	2,849,576	3,385,122	
<u>Sewer Capital</u>								
2565	Sanitary Sewers	2027/12/01	4.820%	2,353,000	1,069,166	1,283,834	1,401,184	
2565	Sanitary Sewers	2026/10/19	4.430%	1,129,000	574,243	554,757	613,591	
2565	Sanitary Sewers	2025/10/13	4.170%	2,012,000	1,137,708	874,292	984,770	
2565	Sanitary Sewers	2024/02/12	4.975%	1,256,000	747,406	508,594	580,505	
				6,750,000	3,528,523	3,221,477	3,580,050	
<u>General Capital Short Term</u>								
LUA-Oct 27/14	Recreation Centre	2020/03/25	1.380%	550,000	450,000	100,000	200,000	
LUA-Jun 27/16	Recreation Centre	2021/06/27	1.380%	750,000	300,000	450,000	600,000	
				1,300,000	750,000	550,000	800,000	
				\$ 16,050,000	\$ 9,428,947	\$ 6,621,053	\$ 7,765,172	

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 \$345,140, including accrued interest of \$53,703 (2017 - \$398,728, including accrued interest of \$50,683).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

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:

2019	\$ 784,480
2020	684,480
2021	684,480
2022	534,480
2023	413,509

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.

2019	\$ 15,485
2020	3,016
Total minimum payments	18,501
Less: Amounts representing interest (at prime plus 1%)	(301)
Present value of net minimum capital lease payments	\$ 18,200

Total interest on repayments for the year was \$597 (2017 - \$643).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

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:

	2018	2017
Accrued benefit obligation, beginning of year	\$ 1,080,842	\$ 991,633
Service cost	116,300	105,200
Interest cost	39,000	39,600
Benefits payments	(35,100)	(52,300)
Past agreement refund accrual	3,352	(3,291)
Accrued benefit obligation, end of year	\$ 1,204,394	\$ 1,080,842

The actuarially accrued benefit obligation set out in the actuarial valuation is \$1,273,200 (2017 - \$1,210,200), resulting in a variance of \$68,806 between the obligation and the accrued benefit liability of \$1,204,394 (2017 - \$1,080,842). The variance is composed of the following two amounts: an actuarial net loss of \$102,800 (2017 - \$158,000) and the special agreement refund accrual of \$33,994 (2017 - \$28,642). 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 \$153,300 (2017 - \$139,300).

The accrued benefit obligations and the net periodic benefit cost were estimated by actuarial valuation as of July 31, 2016. At December 31, 2018, 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:

	2018	2017
Discount rates	3.30%	3.00%
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, 2018

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, 2017, the Plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local government.

Every three years, an actuarial valuation is performed to assess the financial position of the 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 \$1,105,895 (2017 - \$1,047,537) for employer contributions while employees contributed \$935,876 (2017 - \$879,341) to the plan in fiscal 2018.

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, 2017. At December 31, 2017, the total plan provision for approved and unreported claims was \$17,177,300 with a net surplus of \$3,852,873. The actuary does not attribute portions of the unfunded liability to individual employers. The Township paid \$69,796 (2017 - \$73,464) for employer contributions in fiscal 2018.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

7. Tangible capital assets:

Cost	Balance December 31, 2017	Additions	Disposals/ transfers	Balance December 31, 2018
Land and land improvements	\$ 45,619,325	\$ 215,662	\$ (450,900)	\$ 45,384,087
Building and building improvements	24,706,920	511,564	-	25,218,484
Vehicles, machinery and equipment	10,916,156	301,977	(108,042)	11,110,091
Water and wastewater infrastructure	25,057,423	415,366	(14,378)	25,458,411
Roads infrastructure	38,037,739	878,403	(211,434)	38,704,708
Work in progress	76,380	655,103	(4,428)	727,055
Total	\$ 144,413,943	\$ 2,978,075	\$ (789,182)	\$ 146,602,836

Accumulated amortization	Balance December 31, 2017	Disposals	Amortization expense	Balance December 31, 2018
Land and land improvements	\$ 10,627,970	\$ -	\$ 348,825	\$ 10,976,795
Building and building improvements	11,873,706	(10,334)	874,334	12,737,706
Vehicles, machinery and equipment	6,499,184	(95,395)	649,862	7,053,651
Water and wastewater infrastructure	12,424,785	(10,305)	411,425	12,825,905
Roads infrastructure	20,161,137	(204,851)	1,266,313	21,222,599
Total	\$ 61,586,782	\$ (320,885)	\$ 3,550,759	\$ 64,816,656

Net book value	Balance December 31, 2017	Balance December 31, 2018
Land and land improvements	\$ 34,991,355	\$ 34,407,292
Building and building improvements	12,833,214	12,480,778
Vehicles, machinery and equipment	4,416,972	4,056,440
Water and wastewater infrastructure	12,632,638	12,632,506
Roads infrastructure	17,876,602	17,482,109
Work in progress	76,380	727,055
Total	\$ 82,827,161	\$ 81,786,180

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

7. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$727,055 (2017 - \$76,380) 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 \$91,488 during the year (2017 - \$152,560).

(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 (2017 - \$nil).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

8. Accumulated surplus:

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

	2018	2017
Surplus:		
Equity in tangible capital assets	75,146,927	\$ 75,027,984
<u>Unappropriated operating funds</u>	9,934,354	8,269,982
	<u>85,081,281</u>	<u>83,297,966</u>
 Appropriated operating funds:		
Future expenditures	727,275	694,094
Casino revenue	389,101	309,963
Community Works Fund	1,919,626	1,951,104
Library Reserve Fund	283,443	140,000
Community Impact Fund	111,623	55,000
Uncollected taxes	100,000	100,000
Working capital	400,000	400,000
	<u>3,931,068</u>	<u>3,650,161</u>
 Reserve funds set aside for specific purposes by Council:		
Capital Projects	2,028,953	1,951,874
Local Improvement	171,811	164,374
Machinery and Equipment	2,427,160	2,371,264
Municipal Archives Trust	3,933	3,693
Parkland Acquisition	86,602	85,197
Tax Sale Lands	118,243	116,321
Sustainability	99,962	174,101
Eva Chafe	34,179	33,624
Infrastructure and Revitalization	562,751	751,480
Public Art	38,125	24,900
McLoughlin Amenity-Waterfront Parks	32,485	-
McLoughlin Amenity-Recreation Improvements	23,204	-
McLoughlin Amenity-Public Safety Facilities	23,039	-
	<u>5,650,447</u>	<u>5,676,828</u>
	 <u>94,662,796</u>	<u>\$ 92,624,955</u>

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

9. Taxes:

	2018	2017
Taxes for municipal purposes:		
Property tax	\$ 16,065,796	\$ 15,350,166
Local Improvement	4,686	4,686
1% Utility tax	239,726	237,123
	<hr/> \$ 16,310,208	<hr/> \$ 15,591,975

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.

	2018	2017
Taxes, requisitions and levies collected on behalf of the following agencies are not included in these statements:		
Province of British Columbia - school purposes	\$ 5,406,187	\$ 5,059,036
Capital Regional District - requisition	2,540,728	2,191,494
Capital Regional District - 9-1-1 call answer levy	43,226	45,417
Capital Regional Hospital District - requisition	922,870	874,119
British Columbia Assessment Authority	183,801	166,656
British Columbia Transit - Victoria Regional Transit Commission	838,976	818,624
Municipal Finance Authority	806	679
	<hr/> \$ 9,936,594	<hr/> \$ 9,156,025

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

10. Payments in place of taxes:

	2018	2017
Payments in place of taxes received for municipal purposes:		
Federal government	\$ 12,907,689	\$ 12,535,793
British Columbia Hydro & Power Authority	86,923	92,816
Provincial Rental Housing Corporation	2,585	2,518
	<hr/> \$ 12,997,197	<hr/> \$ 12,631,127

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

Province of British Columbia - school purposes	\$ 2,567,205	\$ 2,721,820
Capital Regional District	2,001,595	1,772,026
Capital Regional Hospital District	483,494	503,091
British Columbia Assessment Authority	175,478	165,081
British Columbia Transit - Victoria Regional Transit Commission	614,501	662,632
Municipal Finance Authority	431	396
	<hr/> \$ 5,842,704	<hr/> \$ 5,825,046

11. Transfers from other governments:

	2018	2017
Conditional transfers from other governments:		
Federal	\$ 792,776	\$ 799,020
Provincial	383,244	381,363
Other agencies	3,500	39,000
	<hr/> 1,179,520	<hr/> 1,219,383
Unconditional transfers from other governments:		
Small communities protection	244,760	244,202
Traffic fine revenue sharing	321,326	334,783
	<hr/> 566,086	<hr/> 578,985
Total transfers from other governments	<hr/> \$ 1,745,606	<hr/> \$ 1,798,368

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

12. Commitments and contingencies:

(a) Contractual commitments:

At December 31, 2018, the following major contracts were in progress:

	Total amount of contract	Paid on contract to December 31, 2018
Five Star Paving Co Ltd	\$ 701,535	\$ 476,466
Fraser Valley Refrigeration Ltd	420,428	369,835
IPI Tech Inc	350,630	236,797
Madden Fabrication	151,249	7,441
SLR (Consulting) Canada Ltd	361,003	341,266
WSP Canada Inc	58,290	22,929
	\$ 2,043,135	\$ 1,454,734

(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 \$232,784 (2017 - \$227,827) 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, 2018, there were contingent demand notes of \$464,917 (2017 - \$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, 2018

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 estimated 2019 required contributions on behalf of the Township are \$8,228,378 (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 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. For 2018, the Township received an annualized payment of \$55,715 (2017 - \$55,000).
- (g) The Township entered into a five year agreement with the City of Surrey effective July 3, 2018. 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. The Township paid \$65,586 for the 2018 fiscal year.
- (h) 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, 2018

13. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2018 operating and capital financial plan approved by Council on May 14, 2018. 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	\$ 42,448,284
Less:	
Transfer from other funds	(7,426,502)
Proceeds on debt issue	-
Total revenue	35,021,782
Expenses:	
Operating budget	42,448,284
Less:	
Capital expenditures	(6,040,908)
Transfer to other funds	(3,159,590)
Debt principal payments	(784,482)
Total expenses	32,463,304
Annual surplus	\$ 2,558,478

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

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, 2018

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 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, 2018

14. Segmented information (continued):

2018	General government	Protective services	Transportation	Environmental health	Environmental development	Recreation, parks and culture	Total
Revenues:							
Taxation	\$ 29,307,405	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,307,405
Goods and services	2,191,570	146,906	277,497	249,904	88,898	3,066,319	6,021,094
Government transfers	1,367,437	329,446	27,400	-	-	21,323	1,745,606
Total revenue	32,866,412	476,352	304,897	249,904	88,898	3,087,642	37,074,105
Expenses:							
Salary and wages	2,336,837	4,236,035	1,911,164	366,032	560,122	5,774,717	15,184,907
Materials, supplies and services	1,720,373	8,807,979	1,271,390	687,005	184,589	3,281,683	15,953,019
Interest and other	2,235	-	17,904	123,014	-	204,426	347,579
Amortization	344,753	204,438	1,692,180	391,894	-	917,494	3,550,759
Total expenses	4,404,198	13,248,452	4,892,638	1,567,945	744,711	10,178,320	35,036,264
Annual surplus (deficit)	\$ 28,462,214	\$ (12,772,100)	\$ (4,587,741)	\$ (1,318,041)	\$ (655,813)	\$ (7,090,678)	\$ 2,037,841

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2018

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