

Financial Statements of

**CORPORATION OF THE
TOWNSHIP OF ESQUIMALT**

Year ended December 31, 2015

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Financial Statements

Year ended December 31, 2015

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



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Councilors of the Corporation of the Township of Esquimalt

We have audited the accompanying financial statements of the Corporation of the Township of Esquimalt which comprise the statement of financial position as at December 31, 2015, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation of the Township of Esquimalt as at December 31, 2015, and its results of operations, its change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Statement of Financial Position

December 31, 2015 with comparative information for 2014

| | 2015 | 2014 |
|--|----------------------|----------------------|
| Financial assets: | | |
| Cash and cash equivalents (note 2) | \$ 22,639,027 | \$ 23,325,093 |
| Property taxes receivable | 1,251,441 | 687,951 |
| Accounts receivable | 1,295,385 | 1,689,697 |
| MFA debt reserve cash (note 12(b)) | 217,393 | 211,965 |
| | <u>25,403,246</u> | <u>25,914,706</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | 8,171,489 | 9,007,671 |
| Deferred revenue and deposits (note 3) | 2,343,561 | 1,929,099 |
| Debt (note 4) | 9,069,991 | 9,420,230 |
| Obligations under capital leases (note 5) | 68,350 | 10,925 |
| Employee benefit and retirement obligations (note 6) | 1,034,639 | 1,026,953 |
| | <u>20,688,030</u> | <u>21,394,878</u> |
| Net financial assets | <u>4,715,216</u> | <u>4,519,828</u> |
| Non-financial assets: | | |
| Tangible capital assets (note 7) | 82,366,241 | 78,291,313 |
| Inventory of supplies | 110,681 | 123,071 |
| Prepaid expenses | 204,557 | 51,147 |
| | <u>82,681,479</u> | <u>78,465,531</u> |
| Commitments and contingencies (note 12) | | |
| Accumulated surplus (note 8) | <u>\$ 87,396,695</u> | <u>\$ 82,985,359</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, 2015 with comparative information for 2014

| | Financial plan (note 13) | 2015 | 2014 |
|--|-----------------------------|----------------------|----------------------|
| Revenues: | | | |
| Taxes for municipal purposes (note 9) | \$ 14,883,373 | \$ 14,886,294 | \$ 14,361,965 |
| Payments in place of taxes (note 10) | 11,771,435 | 11,776,021 | 11,500,408 |
| Sale of services | 3,214,864 | 3,199,598 | 3,192,990 |
| Other revenue from own sources | 764,460 | 1,502,314 | 1,486,100 |
| Conditional transfers from other governments (note 11) | 4,113,687 | 3,767,767 | 2,348,211 |
| Unconditional transfers from other governments (note 11) | 641,380 | 641,380 | 399,455 |
| Total revenue | 35,389,199 | 35,773,374 | 33,289,129 |
| Expenses: | | | |
| General government | 5,031,268 | 3,829,666 | 3,523,853 |
| Protective services | 11,319,550 | 11,591,642 | 11,866,531 |
| Transportation | 2,987,904 | 4,140,798 | 4,051,865 |
| Environmental health | 1,179,692 | 1,677,345 | 1,545,558 |
| Environmental development | 881,264 | 761,131 | 579,855 |
| Recreation, parks and culture | 8,420,269 | 9,361,456 | 8,659,085 |
| Total expenses | 29,819,947 | 31,362,038 | 30,226,747 |
| Annual surplus | 5,569,252 | 4,411,336 | 3,062,382 |
| Accumulated surplus, beginning of year | 82,985,359 | 82,985,359 | 79,922,977 |
| Accumulated surplus, end of year | \$ 88,554,611 | \$ 87,396,695 | \$ 82,985,359 |

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, 2015 with comparative information for 2014

| | Financial plan (note 13) | 2015 | 2014 |
|---|-----------------------------|--------------|--------------|
| Annual surplus | \$ 5,569,252 | \$ 4,411,336 | \$ 3,062,382 |
| Contributed tangible capital assets | - | (224,694) | (60,350) |
| Acquisition of tangible capital assets | (6,535,715) | (7,302,208) | (3,999,955) |
| Acquisition of capital lease | - | (74,706) | - |
| Adjustment of tangible capital assets | - | (252,715) | - |
| Amortization of tangible capital assets | - | 3,436,707 | 3,059,172 |
| Proceeds on sale of tangible capital assets | - | 5,350 | 18,961 |
| Loss on disposal of tangible capital assets | - | 337,338 | 71,781 |
| | (6,535,715) | (4,074,928) | (910,391) |
| Acquisition of inventory supplies | - | (110,681) | (123,071) |
| Consumption of inventory supplies | - | 123,071 | 107,641 |
| Acquisition of prepaid expenses | - | (204,557) | (51,147) |
| Consumption of prepaid expenses | - | 51,147 | 55,302 |
| | | (141,020) | (11,275) |
| Change in net financial assets (debt) | (966,463) | 195,388 | 2,140,716 |
| Net financial assets, beginning of year | 4,519,828 | 4,519,828 | 2,379,112 |
| Net financial assets, end of year | \$ 3,553,365 | \$ 4,715,216 | \$ 4,519,828 |

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, 2015 with comparative information for 2014

| | 2015 | 2014 |
|--|---------------|---------------|
| Cash provided by (used in): | | |
| Operating activities | | |
| Annual surplus | \$ 4,411,336 | \$ 3,062,382 |
| Items not involving cash: | | |
| Contributed tangible capital assets | (224,694) | (60,350) |
| Adjustment of tangible capital assets | (252,715) | - |
| Amortization of tangible capital assets | 3,436,707 | 3,059,172 |
| Change in employee benefits and other liabilities | 7,686 | (181,027) |
| Actuarial adjustment on debt | (252,157) | (222,211) |
| Loss on disposal of tangible capital assets | 337,338 | 71,781 |
| Change in non-cash operating assets and liabilities: | | |
| Property taxes receivable | (563,490) | (28,851) |
| Accounts receivable | 394,312 | (704,888) |
| Government grant receivable | - | - |
| MFA debt reserve fund cash | (5,428) | (17,713) |
| Accounts payable and accrued liabilities | (836,182) | (112,229) |
| Deferred revenue and deposits | 414,462 | (723,605) |
| Inventory of supplies | 12,390 | (15,430) |
| Prepaid expenses and deposits | (153,410) | 4,155 |
| | 6,726,155 | 4,131,186 |
| Capital activities: | | |
| Acquisition of tangible capital assets | (7,302,208) | (3,999,955) |
| Proceeds on disposal of tangible capital assets | 5,350 | 18,961 |
| | (7,296,858) | (3,980,994) |
| Financing activities: | | |
| Capital lease obligation repaid | (17,281) | (8,009) |
| Debt issued | 550,000 | 1,200,000 |
| Debt principal repaid | (648,082) | (428,132) |
| | (115,363) | 763,859 |
| Increase (decrease) in cash and cash equivalents | (686,066) | 914,051 |
| Cash and cash equivalents, beginning of year | 23,325,093 | 22,411,042 |
| Cash and cash equivalents, end of year | \$ 22,639,027 | \$ 23,325,093 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 456,904 | \$ 467,468 |
| Cash received from interest | 454,586 | 586,385 |
| Assets acquired under capital lease | 74,706 | - |

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, 2015

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, 2015

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, 2015

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, 2015

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) Adoption of new accounting policy:

The Township adopted Public Sector Accounting Board Standard PS 3260 Liability for Contaminated Sites effective January 1, 2015. Under PS 3260, contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. This Standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination. The Township adopted this standard on a retroactive basis and there were no adjustments as a result of the adoption of this standard.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

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:

| | 2015 | 2014 |
|--|---------------|---------------|
| Cash and bank deposits | \$ 2,850,776 | \$ 2,496,245 |
| Municipal Finance Authority Money Market Funds | 19,788,251 | 20,828,848 |
| | \$ 22,639,027 | \$ 23,325,093 |

3. Deferred revenue and deposits:

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

| | 2015 | 2014 |
|-------------------------------|--------------|--------------|
| Trust and deposit liabilities | \$ 382,575 | \$ 676,309 |
| Unearned recreation fees | 340,757 | 324,269 |
| Property tax instalments | 1,382,155 | 728,447 |
| Miscellaneous | 238,074 | 200,074 |
| | \$ 2,343,561 | \$ 1,929,099 |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

4. Debt:

| Bylaw | Purpose | Matures | Rate | Original Amount | Sinking Fund* | Net Balance | |
|-----------------------------------|-------------------|------------|--------|-----------------|---------------|--------------|--------------|
| | | | | | | 2015 | 2014 |
| General Capital | | | | | | | |
| 2492 | Recreation Centre | 2023-03-10 | 4.775% | \$ 2,800,000 | \$ 1,364,238 | \$ 1,435,762 | \$ 1,582,313 |
| 2492 | Recreation Centre | 2022-03-12 | 5.370% | 4,000,000 | 2,150,942 | 1,849,058 | 2,067,114 |
| 2834 | Roads and Streets | 2024-10-14 | 3.000% | 1,200,000 | 100,801 | 1,099,199 | 1,200,000 |
| | | | | 8,000,000 | 3,615,981 | 4,384,019 | 4,849,427 |
| Sewer Capital | | | | | | | |
| 2565 | Sanitary Sewers | 2027-12-01 | 4.820% | 2,353,000 | 730,476 | 1,622,524 | 1,726,842 |
| 2565 | Sanitary Sewers | 2026-10-19 | 4.430% | 1,129,000 | 404,435 | 724,565 | 776,859 |
| 2565 | Sanitary Sewers | 2025-10-13 | 4.170% | 2,012,000 | 817,339 | 1,194,661 | 1,290,767 |
| 2565 | Sanitary Sewers | 2024-02-12 | 4.975% | 1,256,000 | 541,778 | 714,222 | 776,335 |
| | | | | 6,750,000 | 2,494,028 | 4,255,972 | 4,570,803 |
| General Capital Short Term | | | | | | | |
| LUA-Oct 27/14 | Recreation Centre | 2020-03-25 | 1.380% | 550,000 | - | 430,000 | - |
| | | | | 550,000 | - | 430,000 | - |
| | | | | \$ 15,300,000 | \$ 6,110,009 | \$ 9,069,991 | \$ 9,420,230 |

* Sinking fund column includes principal payments and actuarial earnings.

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.

Total interest on debt for the year was \$465,201, including accrued interest of \$59,682 (2014 - \$461,016, including accrued interest of \$70,024).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

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:

| | | |
|------|----|---------|
| 2016 | \$ | 644,480 |
| 2017 | | 634,480 |
| 2018 | | 644,480 |
| 2019 | | 644,480 |
| 2020 | | 534,480 |

5. Obligations under capital leases:

The Township financed specific municipal hall and recreation department equipment by entering into capital leases with the MFA Leasing Corp. The Township will acquire ownership of the equipment at the end of the lease term. Repayments are due as shown.

| | | |
|--|----|---------|
| 2016 | \$ | 19,275 |
| 2017 | | 18,363 |
| 2018 | | 16,496 |
| 2019 | | 15,713 |
| 2020 | | 818 |
| Total minimum payments | | 70,665 |
| Less: Amounts representing interest (at prime plus 1%) | | (2,315) |
| Present value of net minimum capital lease payments | \$ | 68,350 |

Total interest on leases for the year was \$1,339 (2014 - \$296).

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

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:

| | 2015 | 2014 |
|---|--------------|--------------|
| Accrued benefit obligation, beginning of year | \$ 1,026,953 | \$ 1,207,980 |
| Service cost | 97,600 | 89,000 |
| Interest cost | 33,900 | 42,800 |
| Benefits payments | (125,900) | (284,800) |
| Past agreement refund accrual | 2,086 | (28,027) |
| Accrued benefit liability, end of year | \$ 1,034,639 | \$ 1,026,953 |

The actuarially accrued benefit obligation set out in the actuarial valuation is \$998,100 (2014 - \$985,100), resulting in a variance of \$36,539 between the obligation and the accrued benefit liability of \$1,034,639 (2014 - \$1,026,953). The variance is composed of the following two amounts: an actuarial net gain of \$17,400 (2014 - \$31,900) and the special agreement refund accrual of \$19,139 (2014 - \$9,953). This actuarial gain 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 \$124,400 (2014 - \$111,700).

The accrued benefit obligations and the net periodic benefit cost were estimated by actuarial valuation as of December 31, 2015. At December 31, 2015, 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:

| | 2015 | 2014 |
|--|---------------|---------------|
| Discount rates | 3.30% | 3.20% |
| 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, 2015

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 trusteesd pension plan. The Board of Trustees, representing plan members and employers, is responsible for administering the Plan, including investment of the 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, 2014, the Plan has about 185,000 active members and approximately 80,000 retired members. Active members include approximately 37,000 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 the 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 is then adjusted to the extent there is amortization of any funding deficit.

The most recent valuation for the Plan as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits on a going concern basis. The next valuation will be as at December 31, 2015 with results available in 2016.

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 \$1,007,820 (2014 - \$908,830) for employer contributions while employees contributed \$885,945 (2014 - \$763,878) to the plan in fiscal 2015.

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, 2015, the total plan provision for approved and unreported claims was \$19,101,700 with a net deficit of \$1,519,599. The actuary does not attribute portions of the unfunded liability to individual employers. The Township paid \$70,031 (2014 - \$67,016) for employer contributions in fiscal 2015.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

7. Tangible capital assets:

| Cost | Balance December 31, 2014 | Additions | Disposals/ transfers | Balance December 31, 2015 |
|-------------------------------------|---------------------------------|--------------|-------------------------|---------------------------------|
| Land and land improvements | \$ 41,091,184 | \$ 644,550 | \$ (167,162) | \$ 41,568,572 |
| Building and building improvements | 22,491,254 | 1,320,654 | (6,268) | 23,805,640 |
| Vehicles, machinery and equipment | 9,437,000 | 1,127,224 | (168,417) | 10,395,807 |
| Water and wastewater infrastructure | 22,370,035 | 2,335,695 | (183,640) | 24,522,090 |
| Roads infrastructure | 35,013,661 | 3,431,465 | (1,535,571) | 36,909,555 |
| Work in progress | 1,496,284 | 137,637 | (1,142,902) | 491,019 |
| Total | \$ 131,899,418 | \$ 8,997,225 | \$ (3,203,960) | \$ 137,692,683 |

| Accumulated amortization | Balance December 31, 2014 | Disposals | Amortization expense | Balance December 31, 2015 |
|-------------------------------------|---------------------------------|----------------|-------------------------|---------------------------------|
| Land and land improvements | \$ 9,987,802 | \$ (153,160) | \$ 246,657 | \$ 10,081,299 |
| Building and building improvements | 9,433,305 | (6,266) | 799,979 | 10,227,018 |
| Vehicles, machinery and equipment | 5,095,055 | (169,190) | 576,405 | 5,502,270 |
| Water and wastewater infrastructure | 11,131,264 | (100,977) | 575,242 | 11,605,529 |
| Roads infrastructure | 17,960,679 | (1,288,777) | 1,238,424 | 17,910,326 |
| Total | \$ 53,608,105 | \$ (1,718,370) | \$ 3,436,707 | \$ 55,326,442 |

| Net book value | Balance December 31, 2014 | Balance December 31, 2015 |
|-------------------------------------|---------------------------------|---------------------------------|
| Land and land improvements | \$ 31,103,382 | \$ 31,487,273 |
| Building and building improvements | 13,057,949 | 13,578,622 |
| Vehicles, machinery and equipment | 4,341,945 | 4,893,537 |
| Water and wastewater infrastructure | 11,238,771 | 12,916,561 |
| Roads infrastructure | 17,052,982 | 18,999,229 |
| Work in progress | 1,496,284 | 491,019 |
| Total | \$ 78,291,313 | \$ 82,366,241 |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

7. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$491,019 (2014 - \$1,496,284) have not been amortized. Amortization of these assets will commence when the asset is put into 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 \$224,694 during the year (2014 - \$60,350).

(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 (2014 - \$nil).

(f) Adjustment of tangible capital assets

In the current year, the tangible capital asset sanitary sewers was adjusted for estimates consisting of gross cost - \$252,715; amortization - \$179,004; and net cost - \$73,711.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

8. Accumulated surplus:

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

| | 2015 | 2014 |
|--|----------------------|----------------------|
| Surplus: | | |
| Equity in tangible capital assets | \$ 73,227,900 | \$ 68,860,158 |
| Unappropriated operating funds | 3,393,428 | 4,269,327 |
| | <u>76,621,328</u> | <u>73,129,485</u> |
| Appropriated operating funds: | | |
| Future expenditures | 893,597 | 496,592 |
| Casino revenue | 200,731 | 157,224 |
| Community Works Fund | 1,781,042 | 1,206,960 |
| Uncollected taxes | 100,000 | 100,000 |
| Working capital | 400,000 | 400,000 |
| | <u>3,375,370</u> | <u>2,360,776</u> |
| Reserve funds set aside for specific purposes by Council: | | |
| Capital Projects | 1,701,786 | 1,921,257 |
| Local Improvement | 152,189 | 136,934 |
| Machinery and Equipment | 1,924,834 | 2,121,643 |
| Municipal Archives Trust | 2,972 | 2,628 |
| Parkland Acquisition | 83,698 | 82,988 |
| Tax Sale Lands | 114,273 | 113,302 |
| Sustainability | 196,123 | 165,673 |
| Eva Chafe | 33,032 | 34,460 |
| Infrastructure and Revitalization | 3,191,090 | 2,916,213 |
| | <u>7,399,997</u> | <u>7,495,098</u> |
| | <u>\$ 87,396,695</u> | <u>\$ 82,985,359</u> |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

9. Taxes:

| | 2015 | 2014 |
|-------------------------------|----------------------|----------------------|
| Taxes for municipal purposes: | | |
| Property tax | \$ 14,626,924 | \$ 14,108,109 |
| Local Improvement | 4,686 | 4,686 |
| 1% Utility tax | 254,684 | 249,170 |
| | \$ 14,886,294 | \$ 14,361,965 |

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.

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Taxes, requisitions and levies collected on behalf of the following agencies are not included in these statements: | | |
| Province of British Columbia - school purposes | \$ 5,421,471 | \$ 5,423,794 |
| Capital Regional District - requisition | 1,757,464 | 2,196,311 |
| Capital Regional District - 9-1-1 call answer levy | 49,004 | 50,723 |
| Capital Regional Hospital District - requisition | 856,844 | 863,289 |
| British Columbia Assessment Authority | 183,854 | 185,162 |
| British Columbia Transit - Victoria Regional Transit Commission | 866,368 | 856,673 |
| Municipal Finance Authority | 572 | 560 |
| | \$ 9,135,577 | \$ 9,576,512 |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

10. Payments in place of taxes:

| | 2015 | 2014 |
|--|----------------------|----------------------|
| Payments in place of taxes received for municipal purposes: | | |
| Federal government | \$ 11,676,582 | \$ 11,382,604 |
| British Columbia Hydro & Power Authority | 96,148 | 98,773 |
| Canada Mortgage and Housing Corporation | 768 | - |
| Songhees Nation Investment Corporation | - | 16,546 |
| Provincial Rental Housing Corporation | 2,523 | 2,485 |
| | \$ 11,776,021 | \$ 11,500,408 |
| Payments in place of taxes collected on behalf of the following agencies are not included in these statements: | | |
| Province of British Columbia - school purposes | \$ 3,115,077 | \$ 3,138,089 |
| Capital Regional District | 1,458,549 | 1,726,695 |
| Capital Regional Hospital District | 546,509 | 544,724 |
| British Columbia Assessment Authority | 173,191 | 167,266 |
| British Columbia Transit - Victoria Regional Transit Commission | 764,027 | 755,006 |
| Municipal Finance Authority | 371 | 359 |
| | \$ 6,057,724 | \$ 6,332,139 |

11. Transfers from other governments:

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Conditional transfers from other governments: | | |
| Federal | \$ 877,302 | \$ 1,347,817 |
| Provincial | 2,890,465 | 980,969 |
| Other agencies | - | 19,425 |
| | 3,767,767 | 2,348,211 |
| Unconditional transfers from other governments: | | |
| Small communities protection | 243,333 | 137,293 |
| Traffic fine revenue sharing | 398,047 | 262,162 |
| | 641,380 | 399,455 |
| Total transfers from other governments | \$ 4,409,147 | \$ 2,747,666 |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

12. Commitments and contingencies:

(a) Contractual commitments:

There were no contractual commitments at December 31, 2015.

(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 \$217,393 (2014 - \$211,965) 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, 2015, there were contingent demand notes of \$464,917 (2014 - \$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.

(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 2016 required contributions on behalf of the Township are \$7,400,627 (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.

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

12. Commitments and contingencies (continued):

- (f) 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. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2015 operating and capital financial plan approved by Council on May 11, 2015. 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 | \$ 38,807,444 |
| Less: | |
| Transfer from other funds | (3,183,683) |
| Proceeds on debt issue | (234,562) |
| Total revenue | 35,389,199 |
| Expenses: | |
| Operating budget | 38,807,444 |
| Less: | |
| Capital expenditures | (6,535,715) |
| Transfer to other funds | (1,817,021) |
| Debt principal payments | (634,761) |
| Total expenses | 29,819,947 |
| Annual surplus | \$ 5,569,252 |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

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, 2015

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, 2015

14. Segmented information (continued):

| 2015 | General government | Protective services | Transportation | Environmental health | Environmental development | Recreation, parks and culture | Total |
|----------------------------------|-----------------------|------------------------|-----------------------|-------------------------|------------------------------|-------------------------------------|---------------------|
| Revenues: | | | | | | | |
| Taxation | \$ 26,662,315 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 26,662,315 |
| Goods and services | 1,096,310 | 63,480 | 322,519 | 477,483 | 15,550 | 2,726,570 | 4,701,912 |
| Government transfers | 1,273,193 | 398,047 | 2,701,492 | - | 19,947 | 16,468 | 4,409,147 |
| Total revenue | 29,031,818 | 461,527 | 3,024,011 | 477,483 | 35,497 | 2,743,038 | 35,773,374 |
| Expenses: | | | | | | | |
| Salary and wages | 2,134,152 | 3,465,223 | 1,731,331 | 315,453 | 548,779 | 5,403,813 | 13,598,751 |
| Materials, supplies and services | 1,411,629 | 7,964,089 | 708,518 | 534,432 | 212,352 | 3,038,656 | 13,869,676 |
| Interest and other | 2,045 | - | 5,551 | 262,129 | - | 187,179 | 456,904 |
| Amortization | 281,840 | 162,330 | 1,695,398 | 565,331 | - | 731,808 | 3,436,707 |
| Total expenses | 3,829,666 | 11,591,642 | 4,140,798 | 1,677,345 | 761,131 | 9,361,456 | 31,362,038 |
| Annual surplus (deficit) | \$ 25,202,152 | \$ (11,130,115) | \$ (1,116,787) | \$ (1,199,862) | \$ (725,634) | \$ (6,618,418) | \$ 4,411,336 |

CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Notes to Financial Statements

Year ended December 31, 2015

14. Segmented information (continued):

| 2014 | General government | Protective services | Transportation | Environmental health | Environmental development | Recreation, parks and culture | Total |
|----------------------------------|--------------------|---------------------|----------------|----------------------|---------------------------|-------------------------------|---------------|
| Revenues: | | | | | | | |
| Taxation | \$ 25,862,373 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 25,862,373 |
| Goods and services | 1,485,155 | 56,328 | 467,994 | 190,455 | 7,726 | 2,471,432 | 4,679,090 |
| Government transfers | 1,642,156 | 262,162 | 399,007 | - | 9,938 | 434,403 | 2,747,666 |
| Total revenue | 28,989,684 | 318,490 | 867,001 | 190,455 | 17,664 | 2,905,835 | 33,289,129 |
| Expenses: | | | | | | | |
| Salary and wages | 1,997,937 | 4,025,366 | 1,693,134 | 327,295 | 391,352 | 5,068,781 | 13,503,865 |
| Materials, supplies and services | 1,245,226 | 7,697,124 | 774,445 | 549,522 | 188,503 | 2,734,222 | 13,189,042 |
| Interest and other | 1,707 | - | 7,200 | 306,847 | - | 158,914 | 474,668 |
| Amortization | 278,983 | 144,041 | 1,577,086 | 361,894 | - | 697,168 | 3,059,172 |
| Total expenses | 3,523,853 | 11,866,531 | 4,051,865 | 1,545,558 | 579,855 | 8,659,085 | 30,226,747 |
| Annual surplus (deficit) | \$ 25,465,831 | \$ (11,548,041) | \$ (3,184,864) | \$ (1,355,103) | \$ (562,191) | \$ (5,753,250) | \$ 3,062,382 |