

Consolidated Financial Statements of

# **DISTRICT OF HIGHLANDS**

Year ended December 31, 2018

# DISTRICT OF HIGHLANDS

Consolidated Financial Statements

Year ended December 31, 2018

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## **MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements of the District of Highlands (the "District") are the responsibility of management and have been prepared in compliance with applicable legislation, and in accordance with public sector accounting standards for local governments established by the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The District's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

Mayor and Council meet with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

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

  
Chief Administrative Officer - Treasurer



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Canada  
Telephone (250) 480-3500  
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## INDEPENDENT AUDITORS' REPORT

*To the Mayor and Councillors of The District of Highlands*

### **Opinion**

We have audited the consolidated financial statements of the District of Highlands (the "District"), which comprise:

- the consolidated statement of financial position as at end of December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the District as at December 31, 2018 and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the District in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



## ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the District's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the District's financial reporting process.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Victoria, Canada  
May 6, 2019

# DISTRICT OF HIGHLANDS

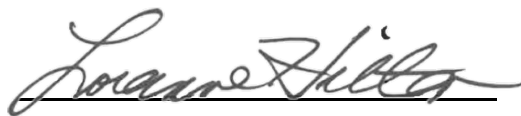
## Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
<b>Financial assets:</b>		
Cash and cash equivalents	\$ 4,921,296	\$ 4,074,293
Accounts receivable (note 2)	131,072	120,539
Taxes receivable	72,090	51,039
Restricted cash	26,896	24,915
	<u>5,151,354</u>	<u>4,270,786</u>
<b>Financial liabilities:</b>		
Accounts payable and accrued liabilities	601,662	385,788
Security deposits	65,961	35,369
Accrued payroll expenses	14,175	12,323
Deferred revenue (note 3)	93,380	85,896
Long-term debt (note 4)	631,667	710,604
	<u>1,406,845</u>	<u>1,229,980</u>
<b>Net financial assets</b>	3,744,509	3,040,806
<b>Non-financial assets:</b>		
Tangible capital assets (note 5)	38,192,195	38,822,185
Prepaid expenses	11,073	8,266
	<u>38,203,268</u>	<u>38,830,451</u>
Commitments and contingencies (note 11)		
<b>Accumulated surplus (note 6)</b>	<u>\$ 41,947,777</u>	<u>\$ 41,871,257</u>

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

On behalf of the District:



Chief Administrative Officer - Treasurer

# DISTRICT OF HIGHLANDS

## Consolidated Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	Financial plan (note 12)	2018	2017
<b>Revenue:</b>			
Taxation, net (note 7)	\$ 1,891,180	\$ 1,896,463	\$ 1,831,691
Government transfers (note 8)	678,700	607,107	533,064
Sale of services	213,104	219,245	190,474
Licenses, permits and other	66,890	122,627	93,740
Investment income	12,000	71,242	17,506
Donations and amenities	47,500	25,841	78,447
Other	69,586	113,528	112,771
Actuarial adjustment on debt	-	18,053	15,130
	<u>2,978,960</u>	<u>3,074,106</u>	<u>2,872,823</u>
<b>Expenses (note 9):</b>			
General government services	785,900	771,655	720,833
Protective services	540,030	502,307	467,404
Transportation services	995,475	917,767	913,610
Environmental development services	316,950	169,288	151,569
Recreation and cultural services	653,547	636,569	608,319
	<u>3,291,902</u>	<u>2,997,586</u>	<u>2,861,735</u>
Annual surplus (deficit)	(312,942)	76,520	11,088
Accumulated surplus, beginning of year	41,871,257	41,871,257	41,860,169
Accumulated surplus, end of year	<u>\$ 41,558,315</u>	<u>\$ 41,947,777</u>	<u>\$ 41,871,257</u>

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



# DISTRICT OF HIGHLANDS

## Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2018, with comparative information for 2017

	Financial plan (note 12)	2018	2017
Annual surplus (deficit)	\$ (312,942)	\$ 76,520	\$ 11,088
Acquisition of tangible capital assets	(509,000)	(266,222)	(428,885)
Amortization of tangible capital assets	862,180	915,482	903,411
Developer contributions of tangible capital assets	-	-	(11,558)
Loss on disposal of tangible capital assets	-	3,880	-
Change in West Shore	-	(23,150)	-
	353,180	629,990	462,968
Change in prepaid expenses	-	(2,807)	2,005
Change in net financial assets	40,238	703,703	476,061
Net financial assets, beginning of year	3,040,806	3,040,806	2,564,745
Net financial assets, end of year	\$ 3,081,044	\$ 3,744,509	\$ 3,040,806

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

# DISTRICT OF HIGHLANDS

## Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
<b>Operating activities:</b>		
Annual surplus	\$ 76,520	\$ 11,088
Items not involving cash:		
Amortization of tangible capital assets	915,482	903,411
Developer contributions of tangible capital assets	-	(11,558)
Loss on disposal of tangible capital assets	3,880	-
Change in West Shore	(23,150)	-
Actuarial adjustment on debt	(18,053)	(15,130)
Changes in non-cash operating assets and liabilities:		
Accounts receivable	(10,533)	(26,056)
Taxes receivable	(21,051)	57,856
Restricted cash	(1,981)	(2,421)
Accounts payable and accrued liabilities	215,874	(111,610)
Accrued payroll expenses	1,852	(1,465)
Security deposits	30,592	(257)
Deferred revenue	7,484	14,472
Prepaid expenses	(2,807)	2,005
	1,174,109	820,335
<b>Capital activities:</b>		
Acquisition of tangible capital assets	(266,222)	(428,885)
	(266,222)	(428,885)
<b>Financing activities:</b>		
Debt repaid	(60,884)	(60,885)
	(60,884)	(60,885)
Increase in cash and cash equivalents	847,003	330,565
Cash and cash equivalents, beginning of year	4,074,293	3,743,728
Cash and cash equivalents, end of year	\$ 4,921,296	\$ 4,074,293
Supplemental cash flow information:		
Cash paid for interest	\$ 24,205	\$ 24,205
Cash received from interest	71,242	17,506

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

# DISTRICT OF HIGHLANDS

## Notes to Consolidated Financial Statements

Year ended December 31, 2018

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District of Highlands (the "District") is a municipality in the Province of British Columbia and operates under the provisions of the Local Government Act and the Community Charter of British Columbia.

The District provides municipal services such as police, fire, public works, engineering, planning, parks, recreation, community development, and other general government operations.

### 1. Significant accounting policies:

The consolidated financial statements of the District are prepared by management in accordance with Canadian public sector accounting standards for governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the District are as follows:

(a) Reporting entity:

The consolidated financial statements reflect the combination of all the assets, liabilities, revenues, expenses, and changes in fund balances and in financial position of the District. The consolidated financial statements of the District also include the District's proportionate interest in West Shore Parks and Recreation Society ("West Shore"), a government partnership jointly controlled by the District.

(b) Basis of accounting:

The District follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

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. Government transfers with stipulations restricting their use are recognized in the financial statements as revenues in the period in which the eligible expenditures are incurred, providing they are authorized and eligibility criteria are met.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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

Development cost charges are amounts which are restricted by government legislation or agreement with external parties. When qualifying expenditures are incurred, development cost charges are recognized as revenue in amounts which equal the associated expenses.

### (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 ("MFA") Money Market Fund which is recorded at cost plus earnings reinvested in the funds.

### (h) Long-term debt:

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

### (i) Employee future benefits:

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

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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## 1. Significant accounting policies (continued):

(i) Employee future benefits (continued):

Sick leave and other retirement benefits are also available to the District's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The obligations under these benefit plans are accrued based on projected benefits as the employees render services necessary to earn the future benefits.

(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 costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Park improvements	15 - 40
Buildings	25 - 40
Vehicles	5 - 25
Engineering structures	20 - 60

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 District'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.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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## 1. Significant accounting policies (continued):

### (j) Non-financial assets (continued):

#### (i) Tangible capital assets (continued):

The District is fortunate to have many natural assets that reduce the need for built infrastructure that would otherwise be required. This includes the Wark-Colquitz aquifer (water storage and filtration), creeks, ditches and forestlands (rain water management) and the foreshore area (natural seawall). Canadian public-sector accounting standards do not allow for the valuation and recording of such assets into the financial statements of the District. As such, these natural assets are not reported in these financial statements. Nevertheless, the District acknowledges the importance of these assets and the need to manage them in conjunction with built infrastructure.

#### (ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

#### (iii) Natural resources:

Natural resources that have not been purchased are not recognized as assets in the financial statements.

#### (iv) 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.

#### (v) Interest capitalization:

The District does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

#### (vi) 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.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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## 1. Significant accounting policies (continued):

### (k) Contaminated sites:

The District records a liability in its financial statements when contamination on non-active property exceeds an accepted environmental standard and the District is directly responsible, or accepts responsibility for, the damage. The liability is measured at the District'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, contaminated sites and contingent liabilities. Actual results could differ from these estimates.

## 2. Accounts receivable:

	2018	2017
Amenities receivable	\$ 4,026	\$ 4,483
Grants receivable	57,303	-
GST receivable	30,880	28,089
Trade receivables	38,863	87,967
	<u>\$ 131,072</u>	<u>\$ 120,539</u>

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

### 3. Deferred revenue:

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

	2018	2017
Prepaid taxes and other	\$ 47,644	\$ 37,542
West Shore	45,736	48,354
<b>Total deferred revenue</b>	<b>\$ 93,380</b>	<b>\$ 85,896</b>

### 4. Long-term debt:

- (a) The District issues debt instruments through the MFA, pursuant to security issuing bylaws under authority of the Community Charter, to finance certain capital expenditures. The debt is issued on a sinking fund basis, whereby MFA invests the District'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 forgiveness of debt by the MFA using surplus investment income generated by the principal payments. Gross amount of debt and the amount of the principal payments and actuarial earnings are as follows:

MFA issue #	Bylaw #	Purpose	Maturity date	Original issued amount	Principal payments and actuarial earnings	Interest rate	Balance 2018	Balance 2017
		West Shore						
81	186	arena	2024	\$ 571,021	\$ 350,182	2.8%	\$ 220,839	\$ 254,532
139	382	Fire hall bay and tender	2026	500,000	89,172	2.1%	410,828	456,072
				<b>\$1,071,021</b>	<b>\$ 439,354</b>		<b>\$ 631,667</b>	<b>\$ 710,604</b>



# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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## 4. Long-term debt (continued):

(b) Principal payments on long-term debt for the next five years are as follows:

	Total
2019	\$ 80,463
2020	83,561
2021	86,786
2022	90,143
2023	93,639
Thereafter	197,075

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(c) Interest expense:

Total interest expense on long-term debt during the year was \$24,205 (2017 - \$24,205). West Shore arena interest on debt is reduced by a subsidy from West Shore Parks and Recreation Society.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 5. Tangible capital assets:

	Land	Park improvements	Buildings	Vehicles and equipment	Engineering structures	Assets under construction	Total 2018	Total 2017
<b>Cost:</b>								
Balance, beginning of year	\$9,685,876	420,793	5,348,215	2,383,824	36,587,101	61,865	\$54,487,674	\$54,047,231
Additions	-	-	5,618	245,639	1,848	13,117	266,222	440,443
Disposals, transfers and change in cost share	-	-	27,070	(150,186)	44,875	(49,049)	(127,290)	-
Balance, end of year	9,685,876	420,793	5,380,903	2,479,277	36,633,824	25,933	54,626,606	54,487,674
<b>Accumulated amortization:</b>								
Balance, beginning of year	-	87,114	861,840	1,402,398	13,314,137	-	15,665,489	14,762,078
Disposals and change in cost share	-	-	2,411	(148,971)	-	-	(146,560)	-
Amortization	-	8,182	99,102	98,716	709,482	-	915,482	903,411
Balance, end of year	-	95,296	963,353	1,352,143	14,023,619	-	16,434,411	15,665,489
Net book value, end of year	\$9,685,876	325,497	4,417,550	1,127,134	22,610,205	25,933	\$38,192,195	\$38,822,185

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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## 5. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction totaling \$25,933 (2017 - \$61,865) have not been amortized. Amortization of these assets will commence when the asset is available for service.

(b) Contributed tangible capital assets:

There were \$100 (2017 - \$11,558) of contributed assets recognized during the year.

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset has been recognized at a nominal value.

(d) Works of art and historical treasures:

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

(e) Write-down of tangible capital assets:

No write-down of tangible capital assets occurred during the year.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 6. Accumulated surplus:

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

	2018	2017
<b>Surplus:</b>		
Equity in tangible capital assets	\$ 37,560,528	\$ 38,111,581
Operating	1,402,626	1,507,155
	<u>38,963,154</u>	<u>39,618,736</u>
<b>Reserve funds set aside for specific purposes by Council:</b>		
Fire capital works and equipment	651,283	573,218
Park acquisition/development	14,863	4,784
Roads reserve	951,100	910,217
General reserve for future expenditures	58,394	34,815
Land sales	107	105
Capital works	202,230	147,477
West Shore reserves	48,970	48,970
Library major asset maintenance	12,370	10,698
Gas Tax Agreement funds	466,439	319,372
Community gardens	4,372	11,694
Community hall	160,996	161,171
Snow reserve	60,499	30,000
Financial stability reserve	325,000	-
Bridge replacement reserve	8,000	-
Groundwater and drainage reserve	10,000	-
Heritage structure reserve	10,000	-
	<u>2,984,623</u>	<u>2,252,521</u>
	<u>\$ 41,947,777</u>	<u>\$ 41,871,257</u>

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 7. Taxation:

Taxation revenue, reported on the consolidated statement of operations, is comprised of the following:

	2018	2017
General tax levy	\$ 3,805,005	\$ 3,531,682
1% utility taxes	34,371	31,722
	<u>3,839,376</u>	<u>3,563,404</u>
Less taxes levied for other authorities:		
School authorities	1,220,556	1,095,346
Police tax	161,601	138,242
Capital Regional District	203,231	174,138
Capital Regional Hospital District	174,756	159,281
BC Assessment Authority	31,704	27,304
BC Transit	150,912	137,279
Municipal Finance Authority	153	123
	<u>1,942,913</u>	<u>1,731,713</u>
	<u>\$ 1,896,463</u>	<u>\$ 1,831,691</u>

## 8. Government transfers:

The District recognizes the transfer of government funding as expenses or revenues in the period that the events giving rise to the transfer occurred. The government transfers reported on the consolidated statement of operations are:

	2018	2017
Small communities and equalization payments	\$ 390,201	\$ 376,661
Federal Gas Tax Agreement funds	148,799	143,174
Other	68,107	13,229
	<u>\$ 607,107</u>	<u>\$ 533,064</u>

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 9. Classification of expense by object:

	2018	2017
Contracted and general services	\$ 721,193	\$ 682,394
Wages and employee benefits	784,917	728,278
Materials, supplies and utilities	455,947	432,914
Council expenses	84,683	69,454
Grants	19,350	19,066
Interest	26,501	26,218
Amortization	915,482	903,411
Change in proportionate share of West Shore	(10,487)	-
<b>Total expense by object</b>	<b>\$ 2,997,586</b>	<b>\$ 2,861,735</b>

## 10. Pension plan:

The District and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for 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, 2018, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The most recent valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits.

The next valuation will be as at December 31, 2018, with results available later 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 individual employers participating in the plan.

The District paid \$51,163 (2017 - \$47,624) for employer contributions while employees contributed \$45,004 (2017 - \$42,877) to the plan in fiscal 2018.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

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## 11. Commitments and contingencies:

- (a) The Capital Regional District ("CRD") debt, under provisions of the Local Government Act, is a direct, joint and several liability of the CRD and each member municipality within the CRD, including the District.
- (b) The District is a shareholder and member of the Capital Region Emergency Service Telecommunications (CREST) Incorporated which provides 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.
- (c) Under borrowing arrangements with the MFA, the District is required to lodge security by means of demand notes and interest-bearing cash deposits based on the amount of the borrowing. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the MFA as a debt reserve fund. These deposits are included in the District's financial assets as other assets and are held by the MFA as security against the possibility of debt repayment default. If the debt is repaid without default, the deposits are refunded to the District. At December 31, 2018 there were contingent demand notes of \$38,857 (2017 - \$38,857) which are not included in the financial statements of the District.
- (d) The District 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 \$5,000. Should the Association pay out claims in excess of premiums received, it is possible that the District, along with the other participants, would be required to contribute towards the deficit.
- (e) The District entered into a contract extension with Victoria Contracting and Municipal Maintenance Corporation in relation to the Highway Maintenance contract. The extension of the agreement is from April 1, 2019 to September 30, 2019 for a total commitment of \$52,641.

# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 12. Financial plan data:

The financial plan data presented in these consolidated financial statements is based upon the 2018 operating and capital budgets approved by Council on May 14, 2018, adjusted to reflect the West Shore proportionately consolidated budgeted revenues and expenses. The chart below reconciles the approved financial plan to the financial plan figures reported in these consolidated financial statements.

	Financial plan amount
Revenues:	
Financial plan, as approved by Council	\$ 2,765,593
West Shore	213,367
	<u>2,978,960</u>
Expenses:	
Financial plan, as approved by Council	3,078,535
West Shore	213,367
	<u>3,291,902</u>
Annual deficit	<u>\$ (312,942)</u>

## 13. West Shore Parks and Recreation Society:

### (a) Capital asset transfer:

The CRD transferred the lands and facilities comprising the Juan de Fuca Recreation Centre to the following municipal partners (the "Municipalities") in 2002: City of Langford, City of Colwood, District of Highlands, District of Metchosin, Town of View Royal and the CRD (on behalf of a portion of the Juan de Fuca Electoral Area). Effective January 1, 2018, the Juan de Fuca Electoral Area withdrew as a member of the Society.

The lands and facilities were transferred to the Municipalities in their proportionate share, as specified in the Co-Owners' Agreement. Future improvements are allocated among the partners as per the cost sharing formula in effect each year for each service or facility, as outlined in a Members' Agreement. For 2018, the District's share of improvements purchased by West Shore on its behalf are \$3,127 (2017 - \$4,911).

Because the cost sharing formula in the Members' Agreement produces different cost shares for the members from year-to-year, there is a gain or loss on the opening fund balances. In 2018, there was an increase to the District's cost share of \$7,005 (2017 - no change).



# DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 13. West Shore Parks and Recreation Society (continued):

### (a) Capital asset transfer (continued):

The participating Municipalities have each become members in West Shore, which was incorporated to provide parks, recreation and community services to the Municipalities under contract. Under terms of an Operating, Maintenance and Management Agreement, West Shore is responsible to equip, maintain, manage and operate the facilities located at the recreation centre.

Financial results and financial plan for West Shore are consolidated into the District's financial statements proportionately, based on the cost sharing formula outlined in the Members' Agreement. In 2018, the District's proportion for consolidation purposes was 3.58% (2017 - 3.57%). Condensed financial information for West Shore is as follows:

### (b) Consolidation:

	2018	2017
Financial assets	\$ 3,636,125	\$ 3,501,452
Financial liabilities	2,233,137	2,260,252
Net financial assets	1,402,988	1,241,200
Non-financial assets	1,030,170	976,001
Accumulated surplus	\$ 2,433,158	\$ 2,217,201
Revenues	\$ 6,547,215	\$ 5,639,648
Requisition for members	4,947,539	4,968,939
	11,494,754	10,608,587
Expenses	6,331,257	5,709,542
Requisition for members	4,947,539	4,968,939
	11,278,796	10,678,481
Annual surplus (deficit)	\$ 215,958	\$ (69,894)

## 14. Comparative information:

Certain 2017 comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.