

Consolidated Financial Statements of

DISTRICT OF HIGHLANDS

Year ended December 31, 2013

DISTRICT OF HIGHLANDS

Consolidated Financial Statements

Year ended December 31, 2013

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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 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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INDEPENDENT AUDITORS' REPORT

To the Mayor and Councillors of The District of Highlands

We have audited the accompanying consolidated financial statements of The District of Highlands, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of The District of Highlands as at December 31, 2013, 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.

Chartered Accountants
May 5, 2014
Victoria, Canada

DISTRICT OF HIGHLANDS

Consolidated Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Financial assets:		
Cash and cash equivalents	\$ 3,624,081	\$ 3,247,548
Accounts receivable (note 2)	627,638	84,987
Taxes receivable	124,903	188,415
Other assets	8,212	7,601
	<u>4,384,834</u>	<u>3,528,551</u>
Financial liabilities:		
Accounts payable and accrued liabilities	609,274	433,882
Security deposits	9,780	17,901
Deferred revenue (note 3)	297,697	209,827
Obligation under capital lease (note 4)	18,321	26,219
Long-term debt (note 5)	380,437	410,766
	<u>1,315,509</u>	<u>1,098,595</u>
Net financial assets	3,069,325	2,429,956
Non-financial assets:		
Tangible capital assets (note 6)	37,512,536	37,114,330
Prepaid expenses	6,222	6,378
Commitments and contingencies (note 12)		
Accumulated surplus (note 7)	\$ 40,588,083	\$ 39,550,664

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, 2013, with comparative information for 2012

	Financial plan (note 13)	2013	2012
Revenue:			
Taxation, net (note 8)	\$ 1,354,043	\$ 1,381,884	\$ 1,362,516
Government transfers (note 9)	871,166	700,636	639,633
Sale of services	198,934	210,926	204,144
Licenses, permits and other	70,900	160,017	67,806
Investment income	13,000	36,272	27,485
Donations and amenities	518,500	1,147,022	43,096
Other	87,870	113,961	100,152
Actuarial adjustment on debt	-	9,130	7,886
Total revenue	3,114,413	3,759,848	2,452,718
Expenses:			
General government services	632,600	613,791	628,158
Protective services	484,152	426,343	409,520
Transportation services	949,940	920,095	891,188
Environmental development services	153,900	117,933	154,008
Recreation and cultural services	500,127	644,267	533,548
	2,720,719	2,722,429	2,616,422
Annual surplus (deficit)	393,694	1,037,419	(163,704)
Accumulated surplus, beginning of year	39,550,664	39,550,664	39,714,368
Accumulated surplus, end of year	\$ 39,944,358	\$ 40,588,083	\$ 39,550,664

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, 2013, with comparative information for 2012

	Financial plan (note 13)	2013	2012
Annual surplus (deficit)	\$ 393,694	\$ 1,037,419	\$ (163,704)
Acquisition of tangible capital assets	(2,956,752)	(1,355,002)	(289,905)
Amortization of tangible capital assets	833,752	895,200	892,565
Loss on disposal of tangible capital assets	-	327	1,219
Change in proportionate share of West Shore	-	61,269	(33,904)
	(2,123,000)	(398,206)	569,975
Acquisition of prepaid expenses	-	156	7,302
Change in net financial assets	(1,729,306)	639,369	413,573
Net financial assets, beginning of year	2,429,956	2,429,956	2,016,383
Net financial assets, end of year	\$ 700,650	\$ 3,069,325	\$ 2,429,956

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

DISTRICT OF HIGHLANDS

Consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 1,037,419	\$ (163,704)
Items not involving cash:		
Amortization of tangible capital assets	895,200	892,565
Loss on disposal of tangible capital assets	327	1,219
Change in proportionate share of West Shore	61,269	(33,904)
Actuarial adjustment on debt	(9,130)	(7,886)
Change in non-cash operating assets and liabilities:		
Accounts receivable	(542,651)	208,387
Taxes receivable	63,512	(57,005)
Other financial assets	(611)	4,894
Accounts payable and accrued liabilities	175,392	42,291
Security deposits	(8,121)	8,191
Deferred revenue	87,870	5,361
Prepaid expenses	156	7,302
	1,760,632	907,711
Capital activities:		
Acquisition of tangible capital assets	(1,355,002)	(289,905)
Financing activities:		
Capital lease payments	(7,898)	(17,295)
Debt repaid	(21,199)	(24,148)
	(29,097)	(41,443)
Increase in cash and cash equivalents	376,533	576,363
Cash and cash equivalents, beginning of year	3,247,548	2,671,185
Cash and cash equivalents, end of year	\$ 3,624,081	\$ 3,247,548
Supplemental cash flow information:		
Cash paid for interest	\$ 35,510	\$ 29,519
Cash received from interest	38,551	30,895

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

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements

Year ended December 31, 2013

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"), an organization 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 are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made. Transfers received for which expenses are not yet incurred are included in deferred revenue.

(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.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(d) Deferred revenue (continued):

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") Bond, Intermediate and Money Market Funds which are recorded at cost plus earnings reinvested in the funds.

(h) Long-term debt:

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

(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, 2013

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, 2013

1. Significant accounting policies (continued):

(j) Non-financial assets (continued):

(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.

(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 these estimates.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

1. Significant accounting policies (continued):

(l) Change in accounting policy:

The Municipality adopted Public Sector Accounting Standard PS 3510, Tax Revenue effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3510, municipalities recognize property tax revenue using the approved mill rate and the anticipated assessment. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the statement of operations.

There were no adjustments as a result of the adoption of this standard.

2. Accounts receivable:

	2013	2012
Amenities receivable	\$ 370,273	\$ 13,205
Grants receivable	182,125	-
GST/HST receivable	58,783	49,152
Trade receivables	16,457	22,630
	<u>\$ 627,638</u>	<u>\$ 84,987</u>

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

3. Deferred revenue:

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

	2013	2012
Gas Tax Agreement Funds	\$ 252,284	\$ 176,735
Prepaid taxes and other	45,413	33,092
Total deferred revenue	\$ 297,697	\$ 209,827

Gas Tax Agreement Funds

	2013	2012
Opening balance of unspent funds	\$ 176,735	\$ 174,725
Add:		
Amounts received during the year	101,118	101,142
Interest income restricted for projects	2,279	3,410
	280,132	279,277
Less amount spent on projects and recorded as revenue	(27,848)	(102,542)
	\$ 252,284	\$ 176,735

4. Obligation under capital lease:

Year ending December 31:		
2014	\$	8,350
2015		8,350
2016		2,783
		19,483
Less amount representing interest (at a rate of 2.00%)		1,162
Present value of net minimum capital lease payments	\$	18,321

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

5. Long-term debt:

- (a) Included in long-term debt is the District's proportionate share of a West Shore five year fixed rate term loan for \$6,453 (2012 - \$10,365).
- (b) 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 adjustments on debt represent the repayment and/or 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 adjustments available to retire the debt are as follows:

MFA issue #	Bylaw #	Purpose	Maturity date	Original issued amount	Principal payments and actuarial adjustments	Interest rate	Balance 2013	Balance 2012
186	81	West Shore arena	2024	\$571,021	\$ 197,019	4.86%	\$374,002	\$400,401
							374,002	400,401
West Shore term loan							6,435	10,365
							\$380,437	\$410,766

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

	Total
2014	\$ 17,269
2015	17,269
2016	17,269
2017	17,269
2018	17,269
Thereafter	294,092

- (d) Interest expense:

Total interest expense during the year was \$27,752 (2012 - \$27,752). West Shore arena interest on debt is reduced by a subsidy from the Cities of Langford and Colwood.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

6. Tangible capital assets:

	Land	Park improvements	Buildings	Vehicles and equipment	Engineering structures	Assets under construction	Total 2013	Total 2012
Cost:								
Balance, beginning of year	\$7,618,141	358,232	2,121,080	2,020,327	36,395,126	39,982	\$48,552,888	\$48,235,616
Additions	334,122	26,331	57,105	47,361	58,101	831,982	1,355,002	325,678
Disposals	-	-	(72,266)	(27,355)	-	-	(99,621)	(8,406)
Balance, end of year	7,952,263	384,563	2,105,919	2,040,333	36,453,227	871,964	49,808,269	48,552,888
Accumulated amortization:								
Balance, beginning of year	-	71,128	590,605	999,897	9,776,928	-	11,438,558	10,551,311
Disposals	-	-	(12,612)	(25,413)	-	-	(38,025)	(5,318)
Amortization	-	4,412	50,637	109,460	730,691	-	895,200	892,565
Balance, end of year	-	75,540	628,630	1,083,944	10,507,619	-	12,295,733	11,438,558
Net book value, end of year	\$7,952,263	309,023	1,477,289	956,389	25,945,608	871,964	\$37,512,536	\$37,114,330

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

6. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction totaling \$831,982 (2012 - \$39,982) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

There were \$334,122 (2012 - \$nil) 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, 2013

7. Accumulated surplus:

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

	2013	2012
Surplus:		
Equity in tangible capital assets	\$ 37,113,778	\$ 36,677,345
Operating	1,331,506	1,313,931
West Shore	(612)	(37,412)
Total surplus	38,444,672	37,953,864
Reserve funds set aside for specific purposes by Council:		
Fire capital works and equipment	922,240	849,273
Park acquisition/development	33,803	59,536
Roads reserve	812,295	471,100
General reserve for future expenditures	33,548	33,212
Land sales	101	100
Capital works and community hall	270,711	123,486
West Shore reserves	67,267	60,093
Library major asset maintenance	3,446	-
Total reserve funds	2,143,411	1,596,800
	\$ 40,588,083	\$ 39,550,664

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

8. Taxation:

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

	2013	2012
Municipal purposes:		
General	\$ 3,174,556	\$ 3,107,667
1% utility taxes	24,407	25,844
	<u>3,198,963</u>	<u>3,133,511</u>
Less taxes levied for other authorities:		
School authorities	1,179,680	1,146,823
Police tax	129,130	118,761
Capital Regional District	162,098	173,105
Capital Regional Hospital District	166,297	167,861
BC Assessment Authority	34,507	34,216
BC Transit	145,256	130,116
Municipal Finance Authority	111	113
	<u>1,817,079</u>	<u>1,770,995</u>
	<u>\$ 1,381,884</u>	<u>\$ 1,362,516</u>

9. 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:

	2013	2012
Provincial government:		
Small communities and equalization payments	\$ 238,084	\$ 509,406
Gas tax	27,848	102,542
Other	34,704	9,050
Towns for Tomorrow	400,000	-
	<u>700,636</u>	<u>620,998</u>
Capital transfers:		
Other	-	18,635
Total revenue	<u>\$ 700,636</u>	<u>\$ 639,633</u>

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

10. Classification of expense by object:

	2013	2012
Contracted and general services	\$ 613,076	\$ 665,304
Wages and employee benefits	646,085	619,962
Materials, supplies and utilities	397,893	373,357
Council expenses	63,700	61,224
Grants	16,727	16,729
Interest	28,479	28,309
Amortization	895,200	884,297
Change in proportionate share of West Shore	61,269	(33,904)
Total expense by object	\$ 2,722,429	\$ 2,615,278

11. 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 overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 179,000 active members and approximately 71,000 retired members. Active members include approximately 35,000 contributors from local government.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at December 31, 2012 indicated an unfunded liability of \$1,370 million for basic pension benefits. The next valuation will be as at December 31, 2015, with results available later 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 with the result that there is no consistent and reliable basis for allocation the obligation, assets and the costs to the individual employers participating in the Plan. The District paid \$33,396 (2012 - \$30,944) for employer contributions and District employees paid \$36,124 (2012 - \$35,209) employee contributions to the plan in fiscal 2013.

12. 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.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

12. Commitments and contingencies (continued):

- (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 restricted receivables 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, 2013 there were contingent demand notes of \$16,800 (2012 - \$16,800) 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.
- (d) The District has \$700,000 in contracts outstanding to complete the construction of the community hall which is expected to be completed in 2014.

13. Financial plan data:

The unaudited financial plan data presented in these consolidated financial statements is based upon the 2013 operating and capital budgets approved by Council on May 14, 2012, adjusted to reflect 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.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

13. Financial plan data (continued):

	Financial plan amount
Revenues:	
Financial plan	\$ 2,914,044
West Shore	200,369
Total revenue	3,114,413
Expenses:	
Financial plan	2,533,102
West Shore	187,617
Total expenses	2,720,719
Annual deficit	\$ 393,694

14. 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") effective January 2, 2002: City of Langford, City of Colwood, District of Highlands, District of Metchosin and the CRD (on behalf of a portion of the Juan de Fuca Electoral Area). Effective January 1, 2007 the Town of View Royal became 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 2013, the District's share of improvements purchased by the Society on its behalf is \$3,781 (2012 - \$4,255).

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 2013, the District recorded a loss of \$61,269 (2012 - gain of \$33,904).

The repayment of the long-term debt associated with the transferred assets will continue to be a regional function, in accordance with the terms of an Agreement to Transfer between the CRD, the Municipalities and the Society. The debt payments are charged to the Municipalities as part of the CRD's annual requisition. The maturity dates of the various borrowings range from 2012 through 2014. The proportionate share of the debt funded by the District through the requisition process as at December 31, 2013 was \$22,600.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2013

14. West Shore Parks and Recreation Society (continued):

(a) Capital asset transfer (continued):

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

Financial results and financial plan for the Society are consolidated into the District's financial statements proportionately, based on the cost sharing formula outlined in the Members' Agreement. In 2013, the District's proportion for consolidation purposes was 3.82% (2012 - 3.94%). Condensed financial information for the Society is as follows:

(b) Consolidation:

	2013	2012
Financial assets	\$ 2,993,912	\$ 2,219,968
Financial liabilities	2,112,249	1,658,182
Net financial assets	881,663	561,786
Non-financial assets	879,243	752,357
Accumulated surplus	\$ 1,760,906	\$ 1,314,143
Revenues	\$ 5,694,277	\$ 5,424,178
Requisition for members	4,845,294	4,698,024
	10,539,571	10,122,202
Expenses	5,247,514	5,122,847
Requisition for members	4,845,294	4,698,024
	10,092,808	9,820,871
Annual deficit	\$ 446,763	\$ 301,331



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AUDITORS' REPORT ON SUBSECTIONS 2 AND 3 OF SECTION 124 OF PART 8 OF THE SCHOOL ACT

To the Ministry of Community, Sport and Cultural Development

We have audited the District of Highland's (the "District") compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2013. Compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act is the responsibility of the District's management. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the District complied with subsections 2 and 3 of section 124 of Part 8 of the School Act. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with subsections 2 and 3 of section 124 of Part 8 of the School Act and, where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the District has complied, in all material respects, with subsections 2 and 3 of section 124 of Part 8 of the School Act for the year ended December 31, 2013.

Our report is intended solely for the District and the Ministry of Community, Sport and Cultural Development and should not be used by parties other than the District or the Ministry of Community, Sport and Cultural Development.

Chartered Accountants

May 5, 2014
Victoria, Canada



Note 1 to C2 – Home Owner Grant: Treasurer/Auditor Certificate

(a) Basis of accounting:

The C2 – Home Owner Grant: Treasurer/Auditor Certificate has been prepared in accordance with the financial provisions of Section 12(1) of the Home Owner Grant Act.

(b) Significant accounting policy:

Total home owner grants represent grants applied by home owners.