

Consolidated Financial Statements of

DISTRICT OF HIGHLANDS

Year ended December 31, 2015

DISTRICT OF HIGHLANDS

Consolidated Financial Statements

Year ended December 31, 2015

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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, 2015, 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, 2015, and its consolidated results of operations, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

May 2, 2016
Victoria, Canada

DISTRICT OF HIGHLANDS

Consolidated Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash and cash equivalents	\$ 2,578,304	\$ 2,361,657
Accounts receivable (note 2)	110,915	336,579
Taxes receivable	136,260	143,108
Other assets	17,480	15,373
	<u>2,842,959</u>	<u>2,856,717</u>
Financial liabilities:		
Accounts payable and accrued liabilities	369,566	513,985
Security deposits	13,764	15,110
Accrued payroll expenses	190	-
Deferred revenue (note 3)	64,173	49,313
Obligation under capital lease (note 4)	2,033	10,264
Long-term debt (note 5)	317,202	349,024
	<u>766,928</u>	<u>937,696</u>
Net financial assets	2,076,031	1,919,021
Non-financial assets:		
Tangible capital assets (note 6)	38,023,800	38,445,116
Prepaid expenses	6,096	17,415
	<u>38,029,896</u>	<u>38,462,531</u>
Commitments and contingencies (note 12)		
Accumulated surplus (note 7)	<u>\$ 40,105,927</u>	<u>\$ 40,381,552</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, 2015, with comparative information for 2014

	Financial plan (note 13)	2015	2014
Revenue:			
Taxation, net (note 8)	\$ 1,458,321	\$ 1,464,948	\$ 1,385,072
Government transfers (note 9)	522,249	523,928	627,729
Sale of services	199,235	215,013	207,184
Licenses, permits and other	66,850	146,513	48,645
Investment income	4,200	18,176	31,993
Donations and amenities	150,263	148,041	155,389
Other	23,058	98,720	85,245
Actuarial adjustment on debt	-	11,812	10,449
	<u>2,424,176</u>	<u>2,627,151</u>	<u>2,551,706</u>
Expenses:			
General government services	654,000	745,544	671,552
Protective services	436,598	425,517	423,864
Transportation services	862,329	910,112	907,915
Environmental development services	144,000	120,662	122,405
Recreation and cultural services	545,314	700,941	632,501
	<u>2,642,241</u>	<u>2,902,776</u>	<u>2,758,237</u>
Annual deficit	(218,065)	(275,625)	(206,531)
Accumulated surplus, beginning of year	40,381,552	40,381,552	40,588,083
Accumulated surplus, end of year	<u>\$ 40,163,487</u>	<u>\$ 40,105,927</u>	<u>\$ 40,381,552</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, 2015, with comparative information for 2014

	Financial plan (note 13)	2015	2014
Annual deficit	\$ (218,065)	\$ (275,625)	\$ (206,531)
Acquisition of tangible capital assets	(729,000)	(617,025)	(1,930,233)
Amortization of tangible capital assets	721,047	898,845	889,921
Developer contributions of tangible capital assets	-	(20,405)	-
Loss on disposal of tangible capital assets	-	78,515	34,982
Proceeds on disposal of tangible capital assets	-	-	13,340
Change in proportionate share of West Shore	-	81,386	59,410
	(7,953)	421,316	(932,580)
Acquisition of prepaid expenses	-	11,319	(11,193)
Change in net financial assets	(226,018)	157,010	(1,150,304)
Net financial assets, beginning of year	1,919,021	1,919,021	3,069,325
Net financial assets, end of year	\$ 1,693,003	\$ 2,076,031	\$ 1,919,021

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

DISTRICT OF HIGHLANDS

Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Annual deficit	\$ (275,625)	\$ (206,531)
Items not involving cash:		
Amortization of tangible capital assets	898,845	889,921
Developer contributions of tangible capital assets	(20,405)	-
Loss on disposal of tangible capital assets	78,515	34,982
Change in proportionate share of West Shore	81,386	59,410
Actuarial adjustment on debt	(11,812)	(10,449)
Changes in non-cash operating assets and liabilities:		
Accounts receivable	225,664	291,059
Taxes receivable	6,848	(18,205)
Other financial assets	(2,107)	(7,161)
Accounts payable and accrued liabilities	(144,419)	(95,289)
Accrued payroll expenses	190	-
Security deposits	(1,346)	5,330
Deferred revenue	14,860	(248,384)
Prepaid expenses	11,319	(11,193)
	861,913	683,490
Capital activities:		
Acquisition of tangible capital assets	(617,025)	(1,930,233)
Proceeds on disposal of tangible capital assets	-	13,340
	(617,025)	(1,916,893)
Financing activities:		
Capital lease payments	(8,231)	(8,057)
Debt repaid	(20,010)	(20,964)
	(28,241)	(29,021)
Increase (decrease) incash and cash equivalents	216,647	(1,262,424)
Cash and cash equivalents, beginning of year	2,361,657	3,624,081
Cash and cash equivalents, end of year	\$ 2,578,304	\$ 2,361,657
Supplemental cash flow information:		
Cash paid for interest	\$ 35,510	\$ 21,477
Cash received from interest	18,176	31,993

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

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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 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, 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 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") 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 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, 2015

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, 2015

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, contaminated sites and contingent liabilities. Actual results could differ from these estimates.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(l) Adoption of new accounting policy:

The District of Highlands adopted Public Sector Accounting 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 when an unexpected event resulted in contamination. The District of Highlands adopted this standard on a retrospective basis and there were no adjustments as a result of the adoption of this standard.

2. Accounts receivable:

	2015	2014
Amenities receivable	\$ 92,219	\$ 115,139
Grants receivable	2,117	140,543
GST/HST receivable	17,189	70,568
Trade receivables	(610)	10,329
	\$ 110,915	\$ 336,579

3. Deferred revenue:

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

	2015	2014
Prepaid taxes and other	\$ 21,137	\$ 6,968
West Shore	43,036	42,345
Total deferred revenue	\$ 64,173	\$ 49,313

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

4. Obligation under capital lease:

Year ending December 31:

2016	\$	2,783
Less amount representing interest (at a rate of 2.00%)		750
Present value of net minimum capital lease payments	\$	2,033

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 nil (2014 - \$2,740).
- (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 earnings 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 earnings available to retire the debt are as follows:

MFA issue #	Bylaw #	Purpose	Maturity date	Original issued amount	Principal payments and actuarial earnings	Interest rate	Balance 2015	Balance 2014
		West Shore						
81	186	arena	2024	\$ 571,021	\$ 253,819	2.4%	\$ 317,202	\$ 346,284
							317,202	346,284
		West Shore term loan						2,740
							\$ 317,202	\$ 349,024

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

5. Long-term debt (continued):

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

	Total
2016	\$ 17,269
2017	17,269
2018	17,269
2019	17,269
2020	17,269
Thereafter	230,857

(d) Interest expense:

Total interest expense during the year was \$15,976 (2014 - \$18,783). 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, 2015

6. Tangible capital assets:

	Land	Park improvements	Buildings	Vehicles and equipment	Engineering structures	Assets under construction	Total 2015	Total 2014
Cost:								
Balance, beginning of year	\$7,952,263	384,563	3,762,519	2,044,753	36,438,434	905,479	\$51,488,011	\$49,808,269
Additions	4,055	-	1,474,036	42,227	16,350	6,241	1,542,909	2,734,015
Disposals	-	-	(228,786)	(23,721)	-	(905,479)	(1,157,986)	(1,054,273)
Balance, end of year	7,956,318	384,563	5,007,769	2,063,259	36,454,784	6,241	51,872,934	51,488,011
Accumulated amortization:								
Balance, beginning of year	-	80,757	665,841	1,160,849	11,135,448	-	13,042,895	12,295,733
Disposals	-	-	(71,700)	(20,906)	-	-	(92,606)	(142,759)
Amortization	-	5,217	78,532	81,233	733,863	-	898,845	889,921
Balance, end of year	-	85,974	672,673	1,221,176	11,869,311	-	13,849,134	13,042,895
Net book value, end of year	\$7,956,318	298,589	4,335,096	842,083	24,585,473	6,241	\$38,023,800	\$38,445,116

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

6. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction totaling \$6,241 (2014 - \$905,479) have not been amortized. Amortization of, these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

There were \$20,405 (2014 - nil) contributed assets recognized during the year, consisting of roads and land under roads.

(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, 2015

7. Accumulated surplus:

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

	2015	2014
Surplus:		
Equity in tangible capital assets	\$ 37,704,565	\$ 38,085,828
Operating	1,094,432	1,095,470
	<hr/> 38,798,997	<hr/> 39,181,298
Reserve funds set aside for specific purposes by Council:		
Fire capital works and equipment	15,834	95,022
Park acquisition/development	34,464	34,172
Roads reserve	995,243	887,909
General reserve for future expenditures	34,205	33,915
Land sales	103	102
Capital works and community hall	11,506	3,670
West Shore reserves	67,093	45,253
Library major asset maintenance	8,814	6,923
Gas Tax Agreement Funds	23,126	84,857
Community Gardens	16,626	8,295
Community Hall	99,916	136
	<hr/> 1,306,930	<hr/> 1,200,254
	<hr/> \$ 40,105,927	<hr/> \$ 40,381,552

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

8. Taxation:

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

	2015	2014
General tax levy	\$ 3,230,079	\$ 3,124,428
1% utility taxes	29,822	28,734
	<u>3,259,901</u>	<u>3,153,162</u>
Less taxes levied for other authorities:		
School authorities	1,149,442	1,138,600
Police tax	132,706	126,788
Capital Regional District	171,973	162,610
Capital Regional Hospital District	160,892	162,861
BC Assessment Authority	32,225	32,846
BC Transit	147,608	144,281
Municipal Finance Authority	107	104
	<u>1,794,953</u>	<u>1,768,090</u>
	<u>\$ 1,464,948</u>	<u>\$ 1,385,072</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:

	2015	2014
Small communities and equalization payments	\$ 379,905	\$ 231,337
Federal Gas Tax Agreement Funds	137,308	394,857
Other	6,715	1,535
	<u>\$ 523,928</u>	<u>\$ 627,729</u>

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

10. Classification of expense by object:

	2015	2014
Contracted and general services	\$ 754,824	\$ 690,284
Wages and employee benefits	657,114	646,067
Materials, supplies and utilities	409,409	390,180
Council expenses	65,097	74,423
Grants	20,125	17,117
Interest	15,976	18,783
Amortization	898,845	889,921
Change in proportionate share of West Shore	81,386	59,410
Total expense by object	\$ 2,902,776	\$ 2,786,185

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. 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 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 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 \$41,954 (2014 - \$38,863) for employer contributions and District employees paid \$39,810 (2014 - \$39,089) employee contributions to the plan in fiscal 2015.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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.
- (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, 2015 there were contingent demand notes of \$16,800 (2014 - \$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.

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

13. Financial plan data:

The financial plan data presented in these consolidated financial statements is based upon the 2015 operating and capital budgets approved by Council on May 4, 2015, 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.

	Financial plan amount
Revenues:	
Financial plan	\$ 2,224,083
West Shore	200,093
	<u>2,424,176</u>
Expenses:	
Financial plan	2,454,597
West Shore	201,349
West Shore arena debt principal payments	(13,705)
	<u>2,642,241</u>
Annual deficit	<u>\$ (218,065)</u>

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 2015, the District's share of improvements purchased by the Society on its behalf are nil (2014 - nil).

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 2015, the District recorded a loss of \$81,386 (2014 - loss of \$59,410).

DISTRICT OF HIGHLANDS

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2015

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 2015, the District's proportion for consolidation purposes was 3.54% (2014 - 3.70%). Condensed financial information for the Society is as follows:

(b) Consolidation:

	2015	2014
Financial assets	\$ 3,414,023	\$ 3,316,805
Financial liabilities	2,422,204	2,106,272
Net financial assets	991,819	1,210,533
Non-financial assets	905,600	853,693
Accumulated surplus	\$ 1,897,419	\$ 2,064,226
Revenues	\$ 6,433,560	\$ 5,862,973
Requisition for members	4,844,916	4,762,205
	11,278,476	10,625,178
Expenses	6,600,366	5,559,653
Requisition for members	4,844,916	4,762,205
	11,445,282	10,321,858
Annual surplus (deficit)	\$ (166,806)	\$ 303,320

15. Comparative information:

Certain 2014 comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.