

Consolidated Financial Statements of

TOWN OF VIEW ROYAL

Year ended December 31, 2012

TOWN OF VIEW ROYAL

Consolidated Financial Statements

Year ended December 31, 2012

Financial Statements

Management's Responsibility for the Consolidated Financial Statements

Independent Auditors' Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Change in Net Financial Assets

Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

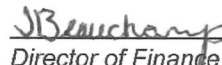
The accompanying consolidated financial statements of the Town of View Royal (the "Town") are the responsibility of Town's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in the notes 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 Town'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 Town. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Town's consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such test and other procedures as they consider necessary to obtain reasonable assurance that the consolidated financial statements are free of material misstatement and present fairly the financial position and results of the Town in accordance with Canadian public sector accounting standards.



Chief Administrative Officer

Director of Finance



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Chartered Accountants
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Victoria BC V8W 3Y7

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Councillors of Town of View Royal

We have audited the accompanying consolidated financial statements of The Town of View Royal which comprise the consolidated statement of financial position as at December 31, 2012, 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 Town of View Royal as at December 31, 2012, 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
July 16, 2013
Victoria, Canada

TOWN OF VIEW ROYAL

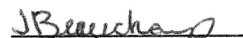
Consolidated Statement of Financial Position

December 31, 2012, with comparative information for 2011

	2012	2011
		(note 2)
Financial assets:		
Cash and cash equivalents (note 3)	\$ 13,129,361	\$ 13,399,976
Taxes receivable	230,851	212,683
Accounts receivable	1,457,700	1,607,838
	14,817,912	15,220,497
Financial liabilities:		
Accounts payable and accrued liabilities	2,615,411	2,440,504
Deposits	746,710	1,044,107
Deferred revenue (note 4)	5,553,113	5,719,145
Prepaid property taxes	255,312	229,079
Long-term debt (note 5)	2,572,193	2,926,343
Employee future benefit obligations (note 6)	133,949	121,656
	11,876,688	12,480,834
Net financial assets	2,941,224	2,739,663
Non-financial assets:		
Tangible capital assets (note 7)	111,027,750	111,773,898
Inventory of supplies	6,758	6,152
Prepaid expenses	60,099	17,472
	111,094,607	111,797,522
Commitments and contingencies (note 10)		
Accumulated surplus (note 8)	\$ 114,035,831	\$ 114,537,185

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

Approved by:



J. Beauchamp, CGA
Director of Finance

TOWN OF VIEW ROYAL

Consolidated Statement of Operations

Year ended December 31, 2012, with comparative information for 2011

	Financial plan (unaudited - note 11)	2012	2011 (note 2)
Revenue:			
Taxation, net (note 9)	\$ 5,693,315	\$ 5,679,365	\$ 5,343,432
User charges	2,466,204	2,319,314	2,310,602
Government transfers:			
Provincial	3,161,753	3,039,415	2,897,765
Federal	525,150	661,530	9,147
Municipal	3,000	30,989	3,686,304
Investment income	70,000	132,157	157,924
Actuarial adjustment to debt	-	45,861	44,384
Penalties and fines	60,000	56,068	62,660
Development charges earned	152,300	21,837	320,541
Developer contributions	-	-	7,763,280
Contributions and donations	-	53,243	596,000
Other revenue from own sources	76,466	109,419	383,607
Total revenue	12,208,188	12,149,198	23,575,646
Expenses:			
General government	1,863,149	1,823,602	1,634,846
Protective services	2,910,840	3,069,369	2,601,905
Transportation services	3,391,098	3,567,647	3,120,642
Environmental health services	1,442,493	1,031,374	1,062,273
Planning and development	578,705	453,625	391,867
Recreation and cultural	2,498,176	2,704,935	2,487,497
Total expenses	12,684,461	12,650,552	11,299,030
Annual surplus (deficit)	(476,273)	(501,354)	12,276,616
Accumulated surplus, beginning of year	114,537,185	114,537,185	102,260,569
Accumulated surplus, end of year	\$ 114,060,912	\$ 114,035,831	\$ 114,537,185

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

TOWN OF VIEW ROYAL

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2012, with comparative information for 2011

	Financial plan (unaudited - note 11)	2012	2011
Annual surplus (deficit)	\$ (476,273)	\$ (501,354)	\$ 12,276,616
Acquisition of tangible capital assets	(4,805,108)	- (2,139,077)	(7,740,938)
Contributions of tangible capital assets	-	(6,000)	(8,356,280)
Amortization of tangible capital assets	2,200,000	2,567,726	2,225,389
Loss on disposal and write-down of tangible capital assets	-	92,351	65,144
Change in proportionate share of West Shore	-	231,149	86,528
	(2,605,108)	746,149	(13,720,157)
Acquisition and consumption of inventory of supplies	-	(606)	3,143
Acquisition and consumption of prepaid expenses	-	(42,627)	4,778
Change in net financial assets	(3,081,381)	201,562	(1,435,620)
Net financial assets, beginning of year	2,739,663	2,739,663	4,175,283
Net financial assets, end of year	\$ (341,718)	\$ 2,941,225	\$ 2,739,663

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

TOWN OF VIEW ROYAL

Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ (501,354)	\$ 12,276,616
Items not involving cash:		
Amortization of tangible capital assets	2,567,726	2,225,389
Loss on disposal and write-down of tangible capital assets	92,351	65,144
Contributions of tangible capital assets	(6,000)	(8,356,280)
Change in employee benefits obligations	12,293	(9,544)
Change in proportionate share of West Shore	231,149	86,528
Actuarial adjustment on debt	(45,861)	(44,384)
Changes in non-cash operating assets and liabilities:		
Accounts receivable	150,137	519,267
Taxes receivable	(18,168)	63,727
Government grant receivable	-	4,449,232
Accounts payable and accrued liabilities	174,907	(420,402)
Deposits	(297,397)	392,932
Deferred revenue	(166,032)	382,402
Prepaid property taxes	26,233	55,547
Inventory of supplies	(606)	3,143
Prepaid expenses	(42,627)	4,778
	2,176,751	11,694,095
Capital activities:		
Acquisition of tangible capital assets	(2,139,077)	(7,740,938)
	(2,139,077)	(7,740,938)
Financing activities:		
Debt issued	-	2,445,000
Debt repaid	(308,289)	(175,755)
	(308,289)	2,269,245
Increase (decrease) in cash and cash equivalents	(270,615)	6,222,402
Cash and cash and cash equivalents, beginning of year	13,399,976	7,177,574
Cash and cash and cash equivalents, end of year	\$ 13,129,361	\$ 13,399,976
Supplemental cash flow information:		
Cash paid for interest	\$ 140,228	\$ 60,765
Cash received from interest	204,712	226,186

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

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements

Year ended December 31, 2012

Town of View Royal (the "Town") 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 Town's principal activities include the provision of local government services to residents of the incorporated area.

1. Significant accounting policies:

The consolidated financial statements of the Town are prepared by management in accordance with Canadian public sector accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Town 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 Town. The consolidated financial statements of the Town include the Town's proportionate interest in West Shore Parks and Recreation Society ("West Shore"), an organization jointly controlled by the Town. The Town does not administer any trust activities on behalf of external parties other than the disbursement of casino revenues to other municipal partners as described in note 4.

(b) Basis of accounting:

The Town 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 consolidated 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.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

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.

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

Casino revenues are required to be spent on eligible expenses as defined in the agreement with the provincial government. The gross revenue received is deferred and recorded as revenue when the related expenses are incurred.

(e) 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.

(f) 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.

(g) Deposits:

Receipts restricted by third parties are deferred and reported as deposits and are refundable under certain circumstances. Deposits are prepayments are recognized as revenue when qualifying expenditures are incurred.

(h) Long-term debt:

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

(i) Employee future benefits:

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

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(i) Employee future benefits (continued):

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

The costs of multi-employer defined contribution pension plan benefits, such as the Municipal Pension Plan, are the employer's contributions due to the plan in the period.

(j) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Land	Indefinite
Land improvements	15 - 25
Buildings	20 - 70
Vehicles, machinery and equipment	3 - 20
Engineering structures	10 - 100

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 Town's ability to provide goods and services, or when the value of future economic benefits associated with the asset are less than the book value of the asset.

(ii) Contributions of tangible capital assets:

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

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

1. Significant accounting policies (continued):

(j) Non-financial assets (continued):

(iii) Interest capitalization:

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

(iv) 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.

(v) Inventory of supplies:

Inventory of supplies held for consumption is recorded at the lower of cost and replacement cost.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets and estimating provisions for accrued liabilities including employee future benefits. Actual results could differ from these estimates.

(l) Comparative information:

Certain 2011 comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

2. Prior period figures:

During the year, it was determined that certain assets recorded from 2008 to 2010 should not have been capitalized in accordance with PSAB Section 3150, Tangible Capital Assets. An adjustment has been recorded to decrease tangible capital assets and accumulated surplus at January 1, 2011 in the amount of \$327,046. The adjustment has no impact on the annual surplus, reserves, change in net financial assets or cash flows in the years presented.

3. Cash and cash equivalents:

	2012	2011
Bank deposits	\$ 2,097,811	\$ 8,527,430
Municipal Finance Authority - Money Market	4,861,442	174,124
Municipal Finance Authority - Intermediate	1,576,831	554,403
Municipal Finance Authority - Short Term Bond	4,548,350	4,100,409
Restricted cash	44,927	43,610
	\$ 13,129,361	\$ 13,399,976

4. Deferred revenue:

The Town has entered into an agreement with the Province whereby 10% of the net gaming revenue from community casinos is to be paid to local governments. The Town has also entered into a casino revenue sharing agreement with neighbouring municipalities whereby 55% of the revenue received from the Province in respect of the gaming facility situated within the Town is to be disbursed to these governments. The balance of the revenue received from the Province is to be retained by the Town and applied to specific purposes. The disbursement of the 55% is not recorded in the financial statements for the Town and is disclosed below as a disbursement to other municipal partners.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Deferred revenue (continued):

	2012	2011
Gaming revenue:		
Deferred net gaming revenue, beginning of year	\$ 1,174,734	\$ 1,492,023
Amounts received during the year	4,158,126	4,212,109
Disbursements:		
Eligible expenditures	(2,347,802)	(2,212,738)
Other municipal partners	(2,286,969)	(2,316,660)
Deferred net gaming revenue, end of year	698,089	1,174,734
Federal Gas Tax Agreement Funds:		
Deferred gas tax agreement funds, beginning of year	320,548	673,078
Amounts received during the year	285,635	285,636
Interest earned	5,455	17,256
Eligible expenses	(364,126)	(655,422)
Deferred gas tax agreement funds, end of year	247,512	320,548
Development cost charges:		
Deferred development cost charges, beginning of year	3,869,055	2,889,862
Amounts received during the year	340,296	1,005,302
Interest earned	70,660	74,090
Eligible expenses	(21,837)	(100,199)
Deferred development cost charges, end of year	4,258,174	3,869,055
Deferred revenue - other	349,338	354,808
Total deferred revenue	\$ 5,553,113	\$ 5,719,145

5. Long-term debt:

(a) Included in long-term debt is the Town's proportionate share of a West Shore five year fixed rate term loan for \$36,076 (2011-\$63,098).

(b) Debt outstanding:

MFA Issue Number	Interest rate	Maturity date	Originally Approved	Net debt 2012	Net debt 2011
95	4.07%	Oct 13, 2013	\$1,493,000	\$213,223	\$418,245
117	3.25%	Oct 12, 2026	2,445,000	2,322,894	2,445,000
West Shore Parks & Recreation				36,076	63,098
				\$3,938,000	\$2,926,343

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

5. Long-term debt (continued):

(c) Debenture debt:

The loan agreements with the Capital Regional District and the MFA provide that if, at any time, the scheduled payments provided for in the agreements are not sufficient to meet the MFA's obligations in respect of such borrowings, the resulting deficiency becomes a liability of the Town.

The Town issues its debt instruments through the MFA. Debt is issued on a sinking fund basis, where the MFA invests the Town's sinking fund 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 repayments.

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

	Total
2013	\$ 284,138
2014	122,106
2015	122,106
2016	122,106
2017	122,106

(d) Interest expense:

Total interest expense during the year was \$140,275 (2011 - \$90,484).

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

6. Employee future benefits obligations:

Employee benefit obligations represent accrued benefits as follows:

	2012	2011
Vacation payable	\$25,893	\$20,066
Accrued overtime	13,995	27,519
Sick leave entitlements	53,400	33,700
West Shore employee future benefit obligations	40,661	40,371
	<u>\$133,949</u>	<u>\$121,656</u>

Accrued vacation is the amount of unused vacation entitlement carried forward into the next year. Accrued sick leave is the estimated liability for sick leave for all employees. Sick leave entitlements can only be used while employed by the Town and are not paid out upon retirement or termination of employment. The accrued sick leave cost was estimated by an actuarial valuation completed effective for December 31, 2012.

Information about liabilities for accrued sick leave is as follows:

	2012	2011
Accrued benefit obligation, beginning of year	\$33,700	\$26,300
Current service cost	6,600	6,400
Interest cost	1,400	1,200
Benefits paid	(200)	(200)
Actuarial loss	11,900	-
Accrued benefit obligation, end of year	<u>\$53,400</u>	<u>\$33,700</u>

The significant actuarial assumptions adopted in measuring the Town's accrued benefit obligations are as follows:

	2012	2011
Discount rates	3.60%	3.60%
Expected future inflation rates	2.50%	2.50%
Expected wage and salary increases	2.58 to 4.50%	2.58 to 4.50%

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

6. Employee future benefits obligations (continued):

Municipal Pension Plan:

The Town 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 Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The plan has about 176,000 active members and approximately 67,000 retired members. Active members include approximately 35,000 contributors from local government.

The most recent actuarial valuation as at December 31, 2009 indicated a \$1,024 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available later in 2013. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

The Town paid \$181,230 (2011 - \$146,398) for employer contributions and Town employees paid \$169,889 (2011 - \$140,262) for employee contributions to the plan in fiscal 2012.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

7. Tangible capital assets:

	Cost (Dec 31, 2011)	Additions	Disposals/ Write-downs	Cost (Dec 31, 2012)	Accumulated Amortization (Dec 31, 2011)	Disposals	Amortization	Accumulated Amortization (Dec 31, 2012)	Net Book Value (Dec 31, 2011)	Net Book Value (Dec 31, 2012)
	recast (note 2)									
Land	\$ 37,073,352	\$ 187,642	\$ -	\$ 37,260,994	\$ -	\$ -	\$ -	\$ -	\$ 37,073,352	\$ 37,260,994
Land Improvements	2,343,584	282,268	-	2,625,852	1,472,245	-	92,099	1,564,344	871,339	1,061,508
Buildings	4,890,456	-	106,881	4,783,575	1,965,302	18,326	187,981	2,134,957	2,925,154	2,648,618
Machinery & Equipment	4,431,962	157,744	407,762	4,181,944	2,526,627	402,627	331,503	2,455,503	1,905,335	1,726,441
Engineering Structures - General	69,273,879	494,746	-	69,768,625	16,954,840	-	1,678,212	18,633,052	52,319,039	51,135,573
Engineering Structures - Sewer	11,654,053	-	-	11,654,053	2,249,079	-	122,351	2,371,430	9,404,974	9,282,623
Work In Progress	168,949	1,057,681	72,025	1,154,605	-	-	-	-	168,949	1,154,605
West Shore	8,855,564	37,021	296,421	8,596,164	1,749,808	66,612	155,580	1,838,776	7,105,756	6,757,388
	\$ 138,691,799	\$ 2,217,102	\$ 883,089	\$ 140,025,812	\$ 26,917,901	\$ 487,565	\$ 2,567,726	\$ 28,998,062	\$ 111,773,898	\$ 111,027,750

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

7. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction totaling \$1,154,605 (2011 - \$168,949) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed tangible capital assets have been recognized at fair market value at the date of contribution. The value of contributed capital assets received during the year is \$6,000 (2011 - \$8,356,280).

(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 Town manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at Town 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:

The write-down of tangible capital assets during the year was \$37,070 (2011 - \$nil).

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

8. Accumulated surplus:

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

	2012	2011
		(note 2)
Surplus:		
Equity in tangible capital assets	\$108,060,557	\$ 108,847,555
Unrestricted general fund surplus	1,009,089	936,957
Unrestricted sewer fund surplus	1,410,224	1,225,432
Total surplus	110,479,870	111,009,944
Reserve funds set aside for specific purposes by Council:		
Capital Works and Land Acquisition	472,795	498,431
Fire Department Equipment	198,777	210,054
Machinery and Equipment Depreciation	62,951	42,232
Municipal Roads Capital	26,694	26,248
Parks and Open Space	296,869	272,237
Parks and Recreation Equipment	201,425	173,473
Police Equipment, Property and Contract	587,460	595,560
Police Operation and Maintenance	257,830	281,534
Road Trust	115,590	113,656
Sewer System Capital	1,035,644	1,057,260
Sewer System Equipment Replacement	82,454	71,242
Tax Sale Land	8,312	8,173
West Shore reserves	209,160	177,141
Total reserve funds	3,555,961	3,527,241
	\$ 114,035,831	\$ 114,537,185

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Net taxes available for municipal purposes:

The Town is required to collect taxes on behalf of and transfer these amounts to the government agencies noted below. Taxes levied over or under the amounts requisitioned are recorded as accounts payable or receivable.

	2012	2011
Taxes		
Property taxes	\$ 11,671,462	\$ 11,114,226
Revenues in lieu of taxes	169,996	187,372
1% utility taxes	118,693	113,286
	<u>11,960,151</u>	<u>11,414,884</u>
Less taxes levied for other authorities:		
School authorities	4,160,901	4,017,955
Capital Regional District	824,794	814,983
Capital Regional Hospital District	610,036	585,307
BC Transit	550,499	519,713
BC Assessment Authority	134,132	133,086
Municipal Finance Authority	424	408
	<u>6,280,786</u>	<u>6,071,452</u>
Net taxes available for municipal purposes	\$ 5,679,365	\$ 5,343,432

10. 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 Town.
- (b) The Town 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.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Commitments and contingencies (continued):

- (c) The Town is a defendant in various lawsuits. The Town records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. The remaining claims, should they be successful as a result of litigation, will be recorded when a liability is likely and determinable. The Town is self-insured through membership in the Municipal Insurance Association of British Columbia. Under this program, member municipalities are to share jointly for general liability claims against any member in excess of \$10,000. Should the Association pay out claims in excess of premiums received, it is possible that the Town, along with the other participants, would be required to contribute towards the deficit.

A lawsuit has been initiated against the Town alleging significant financial losses by the claimant as a result of alleged fraudulent misrepresentation by representatives of the Town. The Town has denied these claims and, represented by insurers, is vigorously defending the lawsuit. As the final outcome of the legal action and the potential financial impact to the Town is not determinable, the Town has not recorded any provision for this matter in the financial statements as at December 31, 2012.

- (d) Under borrowing arrangements with the MFA, the Town 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 Town's financial assets as restricted cash 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 Town. At December 31, 2012 there were contingent demand notes of \$172,803 (2011 - \$172,803) which are not included in the financial statements of the Town.
- (e) As of the date of the statement there was one assessment appeal outstanding. The risk to the Town's portion of property tax revenue if the appeal is successful is \$11,029. The Town has not recorded any provision for this matter in the financial statements as at December 31, 2012.
- (f) The Town entered into a long-term contract with the Federal Government and the Royal Canadian Mounted Police for the provision of police services. Under the terms of this contract, the Town is responsible for 70% of policing costs. The 2013 estimated cost of this contract is \$1,360,315. RCMP members and the federal government are currently in legal proceedings regarding pay raises for 2009 and 2010 that were retracted for RCMP members. As the final outcome of the legal action and the potential financial impact to the Town is not determinable, the Town has not recorded any provision for this matter in the financial statements as at December 31, 2012.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

11. Financial plan data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2012 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 budget to the budget figures reported in these consolidated financial statements.

	Financial plan amount
Revenues:	
Financial plan	\$ 11,459,375
West Shore	748,813
Total revenue	12,208,188
Expenses:	
Financial plan	11,885,775
West Shore	798,686
Total expenses	12,684,461
Annual surplus	\$ (476,273)

The annual surplus above represents the planned results of operations prior to budgeted transfers between reserve funds, debt repayments and capital expenditures.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. West Shore Parks and Recreation Society:

(a) Capital asset transfer:

The lands and facilities comprising the Juan de Fuca Recreation Centre are owned by the member municipalities (the "Municipalities") in their proportionate share, as specified in the Co-Owners' Agreement. The Town became party to the agreement effective January 1, 2007. 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 2012, the Town's share of improvements purchased by the Society on its behalf is \$14,810 (2011 - \$131,283).

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 2012, the Town recorded a loss of \$231,150 (2011 - a loss of \$86,528).

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 2013 through 2014.

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.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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

(b) Consolidation:

Financial results and budget for the Society are consolidated into the Town's financial statements proportionately, based on the cost sharing formula outlined in the Members' Agreement. In 2012, the Town's proportion for consolidation purposes was 13.724% (2011 - 14.183%). Condensed financial information for the Society is as follows:

	2012	2011
Financial assets	\$ 2,219,968	\$ 2,099,082
Financial liabilities	1,658,182	1,850,172
Net financial assets	561,786	248,910
Non-financial assets	752,357	763,902
Accumulated surplus	\$ 1,314,143	\$ 1,012,812
Revenues	\$ 5,424,178	\$ 5,480,808
Requisition for members	4,698,024	4,453,952
	10,122,202	9,934,760
Expenses	9,820,871	10,321,847
Annual surplus (deficit)	\$ 301,331	\$ (387,087)

13. Segmented information:

The Town is a diversified municipal organization that provides a wide range of services to its citizens. Town services are provided by departments and their activities reported separately. Certain functions that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

General government

The general government operations provide the functions of corporate administration, finance, human resources and legislative services and any other functions categorized as non-departmental.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

13. Segmented information (continued):

Protective services

Protective Services includes the View Royal Fire Rescue which is a paid / composite fire department responsible to provide fire suppression service, fire inspections of public buildings, and training and education of volunteer firemen as well as the citizens of View Royal. In addition, it also includes policing provided by the RCMP, emergency planning, animal control and the maintenance and enforcement of building and construction bylaws as well as all other municipal bylaws.

Fire protection services are provided to the Songhees and Esquimalt First Nation communities under contract.

Transportation services

Transportation services is comprised of a wide variety of services such as the annual maintenance of all municipally owned roads and bridges, sidewalks, street signage, boulevards, bus shelters, street lighting and traffic signals. Transportation also includes the design, inspection, and maintenance of the storm drain collection systems.

Environmental health services

Environmental health services are comprised of the following services:

- Solid Waste Management – providing the service of solid waste collection and disposal to the citizens of View Royal.
- Liquid Waste Management (Sewer) Services – providing the removal of the Town's waste water (sewage).

Planning and development services

Environmental development services include all land use, planning and zoning issues in the Town of View Royal.

Recreation and cultural services

Recreation and culture is comprised of services meant to improve the health and development of the citizens of View Royal.

This segment includes maintenance and development of all parks and green space within the Town of View Royal as well as the Town's financial contribution to the services provided by the Greater Victoria Public Library and the West Shore Parks and Recreation Society.

Statement of segmented information

The following statement provides additional financial information for the foregoing functions. Certain allocation methodologies have been employed in the preparation of the segmented financial information. Taxation is apportioned based on budgeted revenue as presented in the consolidated financial plan.

The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

13. Segmented information (continued):

2012	General Government	Protective Services	Transportation Services	Environmental Health Services	Planning and Development Services	Recreation and Cultural	Total
Revenue:							
Taxation	\$ 418,736	\$ 2,185,638	\$ 1,952,288	\$ -	\$ 429,000	\$ 693,703	\$ 5,679,365
User charges	8,638	256,593	71,487	1,041,969	248,652	691,975	2,319,314
Developer contributions	-	-	-	-	-	-	-
Developer charges earned	-	-	-	21,837	-	-	21,837
Contributions and donations	1,243	-	6,000	-	-	46,000	53,243
Other revenue from own sources	12,252	74,131	-	-	-	23,036	109,419
Investment income	60,805	18,500	11,582	33,546	-	7,724	132,157
Penalties and fines	56,068	-	-	-	-	-	56,068
Actuarial adjustment to debt	-	1,071	44,790	-	-	-	45,861
Government transfers	775,712	589,434	1,221,247	-	44,699	1,100,842	3,731,934
Total revenue	1,333,454	3,125,367	3,307,394	1,097,352	722,351	2,563,280	12,149,198
Expenses:							
Salaries, wages, and benefits	926,606	1,138,750	184,032	184,032	330,304	1,154,679	3,918,403
Contracted and general services	282,945	1,377,239	1,441,751	456,360	106,095	986,462	4,650,852
Materials, supplies and utilities	83,781	105,978	169,635	30,194	1,023	80,939	471,550
Other	377,969	153,151	11,229	106,793	13,546	7,909	670,597
Amortization	152,301	214,741	1,700,235	253,995	2,657	243,796	2,567,725
Change in proportionate share of West Shore	-	-	-	-	-	231,150	231,150
Debt services	-	79,510	60,765	-	-	-	140,275
Total expenses	1,823,602	3,069,369	3,567,647	1,031,374	453,625	2,704,935	12,650,552
Annual surplus (deficit)	\$ (490,148)	\$ 55,998	\$ (260,253)	\$ 65,978	\$ 268,726	\$ (141,655)	\$ (501,354)

TOWN OF VIEW ROYAL

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

13. Segmented information (continued):

2011	General Government	Protective Services	Transportation Services	Environmental Health Services	Planning and Development Services	Recreation and Cultural	Total
Revenue:							
Taxation	\$ 715,934	\$ 2,260,798	\$ 1,802,949	\$ -	\$43,243	\$ 520,508	\$ 5,343,432
User charges	12,267	234,616	33,547	1,010,537	335,133	684,502	2,310,602
Developer contributions	-	-	2,609,560	2,103,842	-	3,049,878	7,763,280
Contributions and donations	-	-	3,000	-	-	593,000	596,000
Developer charges earned	-	-	315,569	-	-	4,972	320,541
Other from own sources	240,287	60,780	82,540	-	-	-	383,607
Investment income	23,597	24,450	12,010	50,660	-	47,207	157,924
Penalties and fines	62,660	-	-	-	-	-	62,660
Actuarial adjustment to debt	-	-	44,384	-	-	-	44,384
Government transfers	736,333	216,512	4,600,913	-	10,860	1,028,598	6,593,216
Total revenue	1,791,078	2,797,156	9,504,472	3,165,039	389,236	5,928,665	23,575,646
Expenses:							
Salaries, wages, and benefits	838,359	1,065,521	190,009	171,358	314,243	278,112	2,857,602
Contracted and general services	219,215	1,073,733	1,353,319	467,482	60,754	1,759,226	4,933,729
Materials, supplies and utilities	71,899	95,048	135,861	26,679	517	74,852	404,856
Other	415,309	168,675	79,216	12,847	13,722	10,673	700,442
Amortization	90,064	169,173	1,301,508	383,907	2,631	278,106	2,225,389
Change in proportionate share of West Shore	-	-	-	-	-	86,528	86,528
Debt services	-	29,755	60,729	-	-	-	90,484
Total expenses	1,634,846	2,601,905	3,120,642	1,062,273	391,867	2,487,497	11,299,030
Annual surplus (deficit)	\$ 156,232	\$ 195,251	\$ 6,383,830	\$2,102,766	\$ (2,631)	\$ 3,441,168	\$ 12,276,616