

Consolidated Financial Statements of

CITY OF LANGFORD

Year ended December 31, 2012



CITY OF LANGFORD

British Columbia Canada

Municipal Council

Mayor

Stewart Young

Councillors

**Denise Blackwell
Matt Sahlstrom
Lanny Seaton
Winnie Sifert
Lillian Szpak
Roger Wade**

Municipal Officers

**Administrator
Treasurer
City Engineer
City Planner
Fire Chief**

**Jim Bowden, MPA
Steve Ternent, CGA
Michelle Mahovlich, M.Eng., P.Geo
Matthew Baldwin, MCIP
Bob Beckett, MA**

**Auditors
Solicitors
Bankers
Police**

**KPMG
Young Anderson
Bank of Montreal
RCMP-West Shore**

CITY OF LANGFORD

Consolidated Financial Statements

Year ended December 31, 2012

Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the City of Langford (the "City") are the responsibility of 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 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 City'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.

The Administration and Finance Committee meets 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 City. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's consolidated financial statements.



Administrator

Treasurer



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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Mayor and Councillors of The City of Langford

We have audited the accompanying consolidated financial statements of The City of Langford, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, change in net debt 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 City of Langford as at December 31, 2012, and its consolidated results of operations, its consolidated change in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

May 6, 2013

Victoria, Canada

CITY OF LANGFORD

Consolidated Statement of Financial Position

December 31, 2012, with comparative information for 2011

	2012	2011
Financial assets:		
Cash and cash equivalents (note 2)	\$ 16,300,538	\$ 11,790,206
Property taxes receivable	3,738,343	3,215,811
Accounts receivable	5,899,417	7,025,151
Other assets	112,569	162,207
	<u>26,050,867</u>	<u>22,193,375</u>
Financial liabilities:		
Accounts payable and accrued liabilities	4,944,535	6,170,162
Prepaid property taxes and licences	456,016	485,202
Deferred revenue (note 3)	9,409,376	10,174,118
Refundable deposits	6,551,687	6,475,267
Debt (note 4):		
Short-term	16,750,000	11,750,000
Long-term	12,925,730	15,554,601
Capital lease obligations (note 4)	474,610	518,161
	<u>51,511,954</u>	<u>51,127,511</u>
Net debt	(25,461,087)	(28,934,136)
Non-financial assets:		
Tangible capital assets (note 5)	312,663,783	301,298,540
Sewer franchise agreement (note 6)	10,750,417	7,962,219
Land held for resale	5,472,866	6,157,060
Prepaid expenses	476,493	325,139
	<u>329,363,559</u>	<u>315,742,958</u>
Accumulated surplus (note 7)	\$ 303,902,472	\$ 286,808,822

Commitments and contingencies (note 5(a) and 11)

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


Treasurer

CITY OF LANGFORD

Consolidated Statement of Operations

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

	Financial Plan (unaudited - note 12)	2012	2011
Revenue:			
Taxation, net (note 8)	\$ 20,916,063	\$ 19,960,080	\$ 19,781,425
Development cost charges	2,992,000	2,824,428	2,015,112
Sewer capital recovery fees	-	3,348,245	2,556,204
Utility charges	5,000	5,000	5,000
Other	3,991,287	5,312,247	4,146,857
Licences and permits	2,060,500	1,787,254	2,014,027
Penalties and interest	570,000	347,789	588,385
Government transfers (note 9)	12,887,300	2,371,970	9,024,495
Commercial leasing	774,800	3,557,727	369,698
Casino	1,200,000	1,232,785	1,236,239
Investment earnings	60,000	99,295	41,293
Developer and property owner contributions	1,195,300	12,004,989	15,647,977
Gain on sale of tangible capital assets	-	485,312	-
Total revenue	46,652,250	53,337,121	57,426,712
Expenses:			
General government services:			
Legislative	528,300	288,443	484,569
Administrative	2,155,600	1,928,159	3,110,226
Other	1,055,600	1,088,406	960,948
	3,739,500	3,305,008	4,555,743
Protective services:			
Police and bylaw enforcement	5,657,400	5,225,618	4,617,338
Fire protection and emergency response	2,338,000	2,673,035	2,454,078
Building inspection and other	494,600	560,002	475,230
	8,490,000	8,458,655	7,546,646
Engineering and public works:			
Common services	1,005,100	829,158	791,584
Subdivision services	490,000	481,982	473,784
Roads, streets and storm drainage	4,675,700	7,761,403	6,797,507
	6,170,800	9,072,543	8,062,875
Community services:			
Environmental and development services	846,200	803,518	678,695
Recreation and cultural services	3,657,283	8,190,330	4,585,114
West Shore Parks and Recreation (note 13)	4,819,144	5,546,277	4,222,208
	9,322,627	14,540,125	9,486,017
Utility and enterprise services:			
Sewer infrastructure	-	560,047	552,348
Sewer maintenance	-	49	410
Debt interest	329,400	307,044	363,966
	329,400	867,140	916,724
Total expenses	28,052,327	36,243,471	30,568,005
Annual surplus	18,599,923	17,093,650	26,858,707
Accumulated surplus, beginning of year	286,608,822	286,808,822	259,950,115
Accumulated surplus, end of year	\$ 305,208,745	\$ 303,902,472	\$ 286,808,822

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

CITY OF LANGFORD

Consolidated Statement of Change in Net Debt

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

	Financial Plan (unaudited - note 12)	2012	2011
Annual surplus	\$ 18,599,923	\$ 17,093,650	\$ 26,858,707
Acquisition of tangible capital assets	(35,915,130)	(8,505,135)	(18,859,796)
Increase in land held for resale	-	(628,898)	(198,921)
Amortization of tangible capital assets	-	5,814,180	5,307,561
Gain on sale of tangible capital assets	-	(485,312)	-
Loss on sale of tangible capital assets	-	368,745	65,421
Proceeds on sale of tangible capital assets	-	1,251,836	4,144
Gain on sale of land held for sale	-	(234,990)	-
Proceeds on sale of land held for sale	-	1,548,082	-
Sewer capital recovery fees	-	(3,348,245)	(2,556,204)
Developer contributions of tangible capital assets	(760,590)	(9,539,430)	(10,972,343)
Change in proportionate share of West Shore	-	289,920	(956,812)
	(18,075,797)	3,624,403	(1,308,243)
Acquisition of prepaid expenses	-	(151,354)	(160,682)
Change in net financial assets (debt)	(18,075,797)	3,473,049	(1,468,925)
Net debt, beginning of year	(28,934,136)	(28,934,136)	(27,465,211)
Net debt, end of year	\$ (47,009,933)	\$ (25,461,087)	\$ (28,934,136)

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

CITY OF LANGFORD

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	\$ 17,093,650	\$ 26,858,707
Items not involving cash:		
Amortization of tangible capital assets	5,814,180	5,307,561
Gain on sale of tangible capital assets	(485,312)	-
Loss on sale of tangible capital assets	368,745	65,421
Developer contributions of tangible capital assets	(9,539,430)	(10,972,343)
Sewer capital recovery fees	(3,348,245)	(2,556,204)
Gain on sale of land held for resale	(234,990)	-
Actuarial adjustment on debt	(289,978)	(309,406)
Change in proportionate share of West Shore	289,920	(956,812)
Changes in non-cash operating assets and liabilities:		
Property taxes receivable	(522,532)	1,341,510
Accounts receivable	1,125,734	329,167
Other assets	49,638	17,227
Accounts payable and accrued liabilities	(1,225,627)	(634,106)
Prepaid property taxes and licences	(29,186)	(58,637)
Deferred revenue	(764,742)	(255,320)
Refundable deposits	76,420	333,630
Prepaid expenses	(151,354)	(160,682)
	8,226,891	18,349,713
Capital activities:		
Acquisition of tangible capital assets	(8,505,135)	(18,859,796)
Increase in land held for resale	(628,898)	(198,921)
Proceeds on sale of land held for resale	1,548,082	-
Proceeds on sale of tangible capital assets	1,251,836	4,144
	(6,334,115)	(19,054,573)
Financing activities:		
Capital lease payments	(43,551)	(42,820)
Debt proceeds	5,000,000	4,700,000
Debt payments (West Shore)	(91,457)	(64,779)
Debt payments	(2,247,436)	(2,137,579)
	2,617,556	2,454,822
Increase in cash and cash equivalents	4,510,332	1,749,962
Cash and cash equivalents, beginning of year	11,790,206	10,040,244
Cash and cash equivalents, end of year	\$ 16,300,538	\$ 11,790,206
Supplemental cash flow information:		
Cash paid for interest	\$ 770,282	\$ 791,511
Cash received from interest	207,855	146,106

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

CITY OF LANGFORD

Notes to Consolidated Financial Statements

Year ended December 31, 2012

The City of Langford (the "City") is incorporated and operates under the provisions of the British Columbia Local Government Act and the Community Charter of British Columbia.

1. Significant accounting policies:

The consolidated financial statements of the City are prepared by management in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the City are as follows:

(a) Reporting entity:

The consolidated financial statements include the assets, liabilities, revenues and expenses of the reporting entity. The consolidated financial statements also include the City's proportionate interest in the West Shore Parks and Recreation Society ("West Shore"), an organization jointly controlled by the City. The City does not administer any trust activities on behalf of external parties.

(b) Basis of accounting:

The City 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.

(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 expenditures are incurred development cost charges are recognized as revenue in amounts which equal the associated expenses.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(e) Refundable deposits:

Receipts restricted by third parties are deferred and reported as refundable deposits under certain circumstances. Refundable deposits are returned when the third party meets their obligations or the deposits are recognized as revenue when qualifying expenditures are incurred.

(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 equivalents:

Cash equivalents include short-term highly liquid investments that are cashable on demand or have a term to maturity of 90 days or less at acquisition.

(h) Long-term debt:

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

(i) 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 improvements	10 - 50
Buildings	25 - 70
Vehicles, machinery, equipment	5 - 25
Sewer and storm infrastructure	75 - 100
Roads infrastructure	10 - 75

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(i) Tangible capital assets (continued)

Tangible capital assets are written down when conditions indicate that they no longer contribute to the City'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.

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.

(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) 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.

(iv) Interest capitalization

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

(v) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(vi) Inventory of supplies

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

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements 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, estimating fair value of contributed tangible capital assets and in estimating provisions for accrued liabilities. Actual results could differ from these estimates.

2. Cash and cash equivalents:

	2012	2011
West Shore Parks and Recreation Society	\$ 957,002	\$ 929,831
Cash	5,343,536	3,860,375
Term Deposits	10,000,000	7,000,000
Total	\$ 16,300,538	\$ 11,790,206

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

3. Deferred revenue:

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

	2012	2011
Federal Gas Tax funds	\$ 498,107	\$ 633,832
Development cost charges	8,425,289	9,122,046
Hotel room tax	269,060	216,801
Other	216,920	201,439
Total deferred revenue	\$ 9,409,376	\$ 10,174,118

Gas tax funding is provided by the Government of Canada. The use of the funding is established by a funding agreement between the City and the Union of British Columbia Municipalities. Gas tax funding may be used towards designated public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements.

	2012	2011
Opening balance of unspent funds	\$ 633,832	\$ 1,684,716
Add:		
Amounts received during the year	653,574	653,574
Interest earned	8,040	19,615
	1,295,446	2,357,905
Less amount spent on projects and recorded as revenue	(797,339)	(1,724,073)
	\$ 498,107	\$ 633,832

Development cost charges:

	2012	2011
Opening balance of unspent funds	\$ 9,122,046	\$ 8,409,130
Add:		
Development cost charges received during year	2,037,507	2,634,822
Interest earned	90,164	93,206
	11,249,717	11,137,158
Less amount spent on projects and recorded as revenue	(2,824,428)	(2,015,112)
	\$ 8,425,289	\$ 9,122,046

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Debt:

(a) Short-term debt:

Short-term debt is comprised of an interim financing facility through the TD Bank and bears interest at the Bankers Acceptance Rate plus stamping fee of 65 basis points.

(b) Long-term debt:

Long-term debt consists of the following:

	2012	2011
Municipal Finance Authority ("MFA")	\$ 1,147,511	\$ 1,832,291
West Shore five year fixed rate loan	128,044	219,502
TD Bank	11,650,175	13,502,808
Total	\$ 12,925,730	\$ 15,554,601

Long-term debt through the MFA is presented net of repayments and actuarial adjustments, where the MFA invests the City's repayments so that the repayments, plus investment income, will equal the original outstanding debt amount at the end of the repayment period. Actuarial adjustments on debt represent the forgiveness of debt by the MFA using surplus investment income generated by the principal repayments. The gross value of debenture debt at December 31, 2012 is \$8,214,000. The accumulation of principal repayments and actuarial adjustments allocated to the City as of December 31, 2012 is \$7,066,489 (2011 - \$7,348,067).

Long-term debt from the TD Bank consists of five year floating rate term loans maturing in 2017, with a current interest rate of 1.38%.

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

	General	Sewer	Total
2013	\$ 1,457,532	\$ 730,955	\$ 2,188,487
2014	1,393,927	574,365	1,968,292
2015	1,336,156	265,567	1,601,723
2016	1,061,523	86,493	1,148,016
2017	6,796,304	-	6,796,304

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Debt (continued):

(d) Capital lease obligations:

Year ending December 31:		
2013	\$	49,780
2014		49,780
2015		49,780
2016		332,865
		482,205
Less amount representing interest (at rates ranging from 1.3% to 1.6%)		(7,595)
Present value of net minimum capital lease payments	\$	474,610

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012.

5. Tangible capital assets:

	Land improvements	Land	Buildings	Vehicles, machinery, equipment	Sewer and storm infrastructure	Roads infrastructure	Assets under construction	West Shore(e)	Total 2012	Total 2011
Cost:										
Opening	\$108,527,969	12,227,512	31,935,220	10,505,363	38,518,084	90,368,039	20,245,207	30,781,517	\$343,108,911	\$312,268,626
Additions	7,039,588	649,303	56,819	349,440	1,518,392	3,083,112	5,877,558	131,402	18,705,614	37,780,025
Disposals	(1,415,244)	-	(132,617)	(181,074)	-	(134,634)	(32,130)	(34,893)	(1,930,592)	(8,117,556)
Change in share	-	-	-	-	-	-	-	(367,399)	(367,399)	1,177,816
Balance, end of year	114,152,313	12,876,815	31,859,422	10,673,729	40,036,476	93,316,517	26,090,635	30,510,627	359,516,534	343,108,911
Accumulated amortization:										
Opening	-	2,455,582	3,258,994	3,391,783	5,834,901	20,781,979	-	6,087,132	41,810,371	36,934,259
Disposals	-	-	(4,377)	(55,714)	-	(38,745)	-	(35,438)	(134,274)	(100,105)
Amortization	-	500,387	667,460	746,623	670,708	2,116,752	-	552,203	5,254,133	4,755,213
Change in share	-	-	-	-	-	-	-	(77,479)	(77,479)	221,004
Balance, end of year	-	2,955,969	3,922,077	4,082,692	6,505,609	22,859,986	-	6,526,418	46,852,751	41,810,371
Net book value, end of year	\$114,152,313	9,920,846	27,937,345	6,591,037	33,530,867	70,456,531	26,090,635	23,984,209	\$312,663,783	\$301,298,540

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

5. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$26,090,635 (2011 - \$20,245,207) have not been amortized. Amortization of these assets will commence when the asset is put into service. Major construction contracts of \$8,318,500 were in process at December 31, 2012 with estimated costs to complete of \$6,680,200.

Included in assets under construction is \$23,017,813 for work done on the Leigh Road Interchange. Upon completion of the project, ownership of the portion of the interchange that is in the Trans Canada Highway right of way will be transferred to the Province of BC. At December 31, 2012 the cost of the assets to be transferred totaled \$16,099,219.

(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 \$9,539,430 (2011 - \$10,972,343) comprised of land \$5,881,570 (2011 - \$6,825,776), land improvements \$94,500 (2011 - \$45,000), sewer and storm infrastructure \$1,430,639 (2011 - \$1,240,582) and roads infrastructure \$2,132,720 (2011 - \$2,860,985).

(c) Works of art and historical treasures:

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

(d) Write-down of tangible capital assets:

No tangible capital assets were written down in 2012 or 2011.

(e) West Shore:

The City's proportionate share of West Shore assets includes land, buildings, and equipment which are subject to amortization policies consistent with those of the City.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

6. Sewer franchise agreement:

During 2004, the City entered into a franchise and partnering agreement with West Shore Environmental Services Inc. ("WSES") and Terasen Utility Services Inc. The term of the agreement is 21 years, with a single 21 year renewal. Under the agreement, the City grants an exclusive franchise to WSES to design, construct, finance, own, operate and maintain sanitary sewers in the City. The City also grants an exemption from municipal property tax for sewer infrastructure and WSES has been granted an Order in Council to extend that exemption to property taxes for all other jurisdictions. Upon termination of the agreement, the sewer infrastructure constructed by WSES will be acquired by the City for a nominal payment.

WSES will recover its capital costs by imposition of a sewer capital recovery fee ("SCRF") on owners of property who wish to connect to the sewer. WSES will also bill and collect all user fees. Fees were frozen for five years, ending in 2009. WSES will pay the City franchise fees that are estimated to total \$11 million over the 21 year term of the agreement.

The City records the costs of sewer infrastructure constructed by WSES \$531,039 (2011 - \$546,873) and a corresponding remaining cost to be recovered. The remaining cost to be recovered is reduced as SCRF's are collected by WSES.

The cost of WSES sewer infrastructure, less residual value, is amortized on a straight line basis over their estimated useful lives, 60 to 70 years.

	Opening	Increase	Decrease	Closing
WSES sewer infrastructure				
Cost	\$ 32,897,906	\$ 531,039	\$ -	\$ 33,428,945
Accumulated amortization	(3,121,383)	(560,047)	-	(3,681,430)
	29,776,523	(29,008)	-	29,747,515
Remaining cost to be recovered	(21,814,304)	(531,039)	3,348,245	(18,997,098)
	\$ 7,962,219	\$ (560,047)	\$ 3,348,245	\$ 10,750,417

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

7. Accumulated surplus:

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

	2012	2011
Surplus:		
Invested in tangible capital assets	\$293,263,860	\$ 281,437,997
Invested in land held for resale	5,472,866	6,157,060
Other	(2,594,711)	(5,017,767)
Total surplus	296,142,015	282,577,290
Reserves set aside by Council:		
Future operational contingencies	344,294	523,107
West Shore	589,941	504,076
Total reserves	934,235	1,027,183
Reserve funds set aside for specific purposes by Council:		
Capital works	(595,779)	(2,666,316)
Affordable housing	668,726	655,308
Parks and open space	2,411,627	2,268,767
Parkland improvement	410,116	32,406
General amenity	2,498,398	1,796,375
Equipment replacement	366,325	30,132
Sidewalk capital	52,856	42,334
Bear Mountain firehall	845,721	824,425
Special police capital	137,685	200,640
Downtown parking	30,547	20,278
Total reserve funds	6,826,222	3,204,349
	\$ 303,902,472	\$ 286,808,822

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

8. Taxation:

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

	2012	2011
General	\$ 19,520,146	\$ 19,369,552
Revenue in lieu of taxes	87,116	86,285
Collections for other governments	23,676,780	23,564,885
1% utility taxes	352,818	325,588
	43,636,860	43,346,310
Less taxes levied for other authorities:		
Capital Regional District - General Operating	2,768,581	2,705,866
Revenue in lieu of taxes	78,689	77,489
Capital Regional Hospital District	2,154,462	2,117,469
School Authorities	16,034,134	16,018,623
BC Assessment Authority	485,497	498,482
Municipal Finance Authority	1,484	1,488
BC Transit	2,153,933	2,145,468
	23,676,780	23,564,885
	\$ 19,960,080	\$ 19,781,425

9. Government transfers:

The City recognizes the transfer of government funding as revenue or expense in the period that the events giving rise to the transfer occurred. The Government transfers reported on the consolidated statement of operations are:

	2012	2011
Operating transfers:		
Federal	\$ 16,362	\$ -
Provincial	669,210	877,113
Other	621,463	278,026
	1,307,035	1,155,139
Capital transfers:		
Provincial	1,054,181	4,500,416
Federal	10,754	3,368,940
Total revenue	\$ 2,371,970	\$ 9,024,495

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Municipal pension plan:

The City 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 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.

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, 2009 indicated an unfunded liability of \$1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012, with results available in 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The City paid \$561,227 (2011 - \$529,732) for employer contributions while employees contributed \$494,221 (2011 - \$466,317) to the Plan in fiscal 2012.

11. Commitments and contingencies:

(a) Contingent liabilities:

The 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 City of Langford.

The City is a shareholder and member of the Capital Region Emergency Service Telecommunications (CREST) Incorporated who 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.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

11. Commitments and contingencies (continued):

(b) Municipal Finance Authority contingent demand notes:

Under borrowing arrangements with the MFA, the City 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 City's financial assets as other assets and are held by the MFA as security against the possibility of debt repayment default. If the debt is repaid without default, the deposits are refunded to the City. At December 31, 2012 there were contingent demand notes of \$241,653 which are not included in the financial statements of the City.

(c) Litigation liability:

There are several lawsuits pending in which the City is involved. It is considered that the potential claims against the City resulting from such litigation will be covered by insurance and not materially affect the consolidated financial statements of the City.

(d) Commitments:

The City entered into a long-term contract with the Royal Canadian Mounted Police (RCMP) for the provision of police services effective October 1, 1994. Under the terms of this contract, the City is responsible for 90% of policing costs. The 2013 estimated cost of this contract is \$4,342,300. 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 City is not determinable, the City has not recorded any provision for this matter in the financial statements as at December 31, 2012.

(e) Commitments:

On February 7, 2013, the City entered into a purchase of service agreement with the YMCA/YWCA of Greater Victoria to provide access for Langford residents to an aquatic facility to be built in Langford. The facility is expected to open in 2015 at which time the City agrees to pay \$750,000 per year to be indexed by population every two years from the opening date to a maximum of \$950,000 per year.

12. Financial plan:

The unaudited financial plan data presented in these consolidated financial statements is based upon the 2012 operating and capital financial plans approved by Council on May 7, 2012. Amortization expense was not contemplated on development of the financial plan and, as such, has not been included. The chart below reconciles the approved financial plan to figures reported in these consolidated financial statements.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Financial plan (continued):

	Financial plan amount
Revenues:	
Operating	\$ 29,180,733
Capital	35,915,130
West Shore	2,657,787
Less:	
Transfers from own funds	4,651,400
Proceeds on debt issue	16,450,000
Total revenue	46,652,250
Expenses:	
Operating	29,180,733
Capital	35,915,130
West Shore	2,834,794
Less:	
Capital expenditures	35,915,130
Transfer to own funds	1,581,000
Debt principal payments	2,382,200
Total expenses	28,052,327
Annual surplus	\$ 18,599,923

13. West Shore Parks and Recreation Society:

(a) Capital asset transfer:

The Capital Regional District (the "CRD") transferred the lands and facilities comprising the Juan de Fuca Recreation Centre to the following municipal members (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.

In 2002 the lands and facilities were transferred to the Municipalities in their proportionate share, as specified in the Co-Owners' Agreement. The lands and facilities were reallocated amongst the members on January 1, 2007 when the Town of View Royal became a member. Future improvements are allocated among the members as per the cost sharing formula in effect each year for each service or facility, as outlined in a Members' Agreement. For 2012, the City's share of improvements purchased by the Society on its behalf is \$131,402.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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

(a) Capital asset transfer (continued):

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 City recorded a loss of \$289,920.

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 City through the requisition process as at December 31, 2012 was \$603,671.

The 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.

(b) Consolidation:

Financial results and budget for the Society are consolidated into the City's financial statements proportionately, based on the cost sharing formula outlined in the Members' Agreement. In 2012, the City's proportion for consolidation purposes was 48.71% (2011 – 49.34%).

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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

(b) Consolidation (continued):

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
Invested in tangible capital assets	\$ 738,913	\$ 753,692
Reserve funds	1,524,044	1,248,963
Other	(948,814)	(989,843)
	\$ 1,314,143	\$ 1,012,812
Revenues	\$ 5,424,178	\$ 5,480,807
Requisition from members	4,698,024	4,453,952
	10,122,202	9,934,759
Expenses	5,122,847	5,867,895
Requisition from members	4,698,024	4,453,952
	9,820,871	10,321,847
Annual surplus (deficit)	\$ 301,331	\$ (387,088)

14. Segmented information:

The City is a diversified municipal government institution that provides a wide range of services to its citizens, including General Government Services, Protective Services, Engineering and Public Works Services, Community Services and Utility and Enterprise Services. Service Areas were created for the purpose of recording specific activities to attain certain objectives in accordance with regulations, restrictions or limitations.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

14. Segmented information (continued):

City services are provided by departments and their activities are reported in these Service Areas. Departments disclosed in the Segmented Information, along with the services they provide are as follows:

General Government Services

The Departments within General Government Services are responsible for adopting bylaws; adopting administrative policy; levying taxes; acquiring, disposing and managing City assets; ensuring effective financial management; monitoring performance and ensuring that high quality City services standards are met.

Protective Services

The Departments within Protective Services are Police and Bylaw Enforcement; Fire Protection and Emergency Response; and Building Inspection. The mandates of these departments are to enforce laws, prevent crime, maintain peace, order and security by protecting life, property and the environment.

Engineering and Public Works

The Engineering Department is responsible for the transportation services within the City. This includes roads, storm drains, sidewalks, streetlighting and trolley.

Community Services

The Departments within Community Services include Environmental and Development Services and Recreation and Cultural Services. The Environmental and Development Services Department is responsible for preparing land use plans, bylaws and policies for sustainable development of the City and for reviewing and approving new development. The Recreation and Cultural Services Department is responsible for providing, facilitating the development of, and maintaining high quality parks, recreation facilities and cultural services.

Utility and Enterprise Services

This Department is responsible for administering the Sewer Franchise Agreement (note 6) for the City.

The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements. The following table provides additional financial information for the foregoing segments.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

14. Segmented information (continued):

2012	General Government Services	Protective Services	Engineering and Public Works	Community Services	Utility and Enterprise Services	Total
Revenue:						
Taxation	\$ 4,041,241	\$ 6,156,856	\$ 3,181,976	\$ 5,244,992	\$ 1,335,015	\$19,960,080
Utility charges	-	-	-	-	5,000	5,000
Government transfers	431,414	437,489	1,092	1,501,975	-	2,371,970
Commercial leasing	36,189	158,798	-	3,362,740	-	3,557,727
Other	6,275,709	66,200	309,854	2,941,125	-	9,592,888
Licences and permits	103,810	776,094	418,567	488,783	-	1,787,254
Developer and property owner contributions	-	50,720	8,566,865	1,956,765	1,430,639	12,004,989
Development cost charges	-	-	2,343,069	481,359	-	2,824,428
Casino	268,428	-	964,357	-	-	1,232,785
Total revenue	11,156,791	7,646,157	15,785,780	15,977,739	2,770,654	53,337,121
Expenses:						
Salaries, wages and employee benefits	2,005,016	2,955,930	1,561,503	2,525,958	49	9,048,456
Contracted and general services	439,298	4,465,314	3,960,828	9,009,953	-	17,875,393
Materials, goods, supplies and utilities	479,830	446,690	564,376	819,876	-	2,310,772
Other	96,851	229,623	284,612	276,540	307,044	1,194,670
Amortization	284,013	361,098	2,701,224	1,907,798	560,047	5,814,180
Total expenses	3,305,008	8,458,655	9,072,543	14,540,125	867,140	36,243,471
Annual surplus (deficit)	\$ 7,851,783	\$ (812,498)	\$ 6,713,237	\$ 1,437,614	\$ 1,903,514	\$ 17,093,650