

Consolidated Financial Statements of

CITY OF LANGFORD

Year ended December 31, 2010



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
John Manson, P. Eng.
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, 2010

Financial Statements

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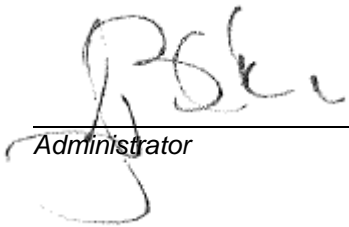
MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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.

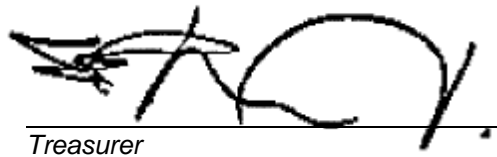
The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely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

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 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



KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca
Internet www.kpmg.ca

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, 2010, 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, 2010, and its consolidated results of operations and its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

May 2, 2011
Victoria, Canada

CITY OF LANGFORD

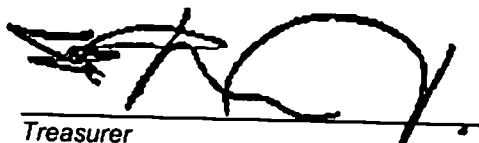
Consolidated Statement of Financial Position

December 31, 2010, with comparative figures for 2009

	2010	2009
Financial assets:		
Cash and cash equivalents (note 3)	\$ 10,040,244	\$ 9,406,956
Property taxes receivable	4,557,321	4,618,210
Accounts receivable	7,354,318	4,378,263
Other assets	179,434	175,962
	<u>22,131,317</u>	<u>18,579,391</u>
Financial liabilities:		
Accounts payable and accrued liabilities	6,804,268	5,615,118
Prepaid property taxes and licences	543,839	425,204
Deferred revenue (note 4)	10,429,438	11,163,023
Refundable deposits	6,141,637	6,192,442
Debt (note 5):		
Short-term	22,250,864	19,024,927
Long-term	2,865,501	3,308,306
Capital lease obligations (note 5)	560,981	603,199
	<u>49,596,528</u>	<u>46,332,219</u>
Net debt	(27,465,211)	(27,752,828)
Non-financial assets:		
Tangible capital assets (notes 2 and 6)	275,334,367	250,798,214
Sewer franchise agreement (note 7)	5,958,363	4,910,653
Land held for resale	5,958,139	7,299,181
Prepaid expenses	164,457	145,140
	<u>287,415,326</u>	<u>263,153,188</u>
Accumulated surplus (notes 2 and 8)	\$ 259,950,115	\$ 235,400,360

Commitments and contingencies (note 6(a) and 12)

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


Treasurer

CITY OF LANGFORD

Consolidated Statement of Operations

Year ended December 31, 2010, with comparative figures for 2009

	Budget (unaudited - note 13)	2010	2009
Revenue:			
Taxation, net (note 9)	\$ 19,610,850	\$ 19,669,214	\$ 17,948,938
Development cost charges	2,851,700	2,438,024	3,422,432
Sewer capital recovery fees	-	1,594,685	1,206,970
Utility charges	5,000	5,000	5,000
Other	4,099,228	4,140,704	3,747,728
Licences and permits	1,590,500	2,290,847	1,724,566
Penalties and interest	497,500	565,528	586,631
Government transfers (note 10)	15,808,800	5,594,614	2,628,213
Commercial leasing	341,000	351,317	368,429
Casino	1,200,000	1,308,718	1,332,637
Investment earnings	75,000	50,179	(20,298)
Developer and property owner contributions	13,590,000	16,799,340	8,092,734
Gain on sale of tangible capital assets	-	662	3,800
Total revenue	59,669,578	54,808,832	41,047,780
Expenses:			
General government services:			
Legislative	310,000	304,635	283,033
Administrative	2,164,400	3,273,029	2,574,954
Other	907,900	942,880	805,891
	3,382,300	4,520,544	3,663,878
Protective services:			
Police and bylaw enforcement	5,229,050	4,787,937	4,720,933
Fire protection and emergency response	2,166,900	2,502,932	2,397,702
Building inspection and other	624,800	523,321	543,630
	8,020,750	7,814,190	7,662,265
Engineering and public works:			
Common services	927,200	795,395	963,313
Subdivision services	469,400	515,194	468,005
Roads, streets and storm drainage	4,059,900	6,352,101	5,229,243
	5,456,500	7,662,690	6,660,561
Community services:			
Environmental and development services	998,800	866,487	1,122,408
Recreation and cultural services	2,924,800	3,900,370	5,184,533
West Shore Parks and Recreation (note 14)	5,511,191	4,573,987	2,267,003
	9,434,791	9,340,844	8,573,944
Utility and enterprise services:			
Sewer infrastructure	-	546,975	1,896,931
Sewer maintenance	-	500	519
Debt interest	411,000	373,334	385,162
	411,000	920,809	2,282,612
Total expenses	26,705,341	30,259,077	28,843,260
Annual surplus	32,964,237	24,549,755	12,204,520
Accumulated surplus, beginning of year (note 2)	235,400,360	235,400,360	223,195,840
Accumulated surplus, end of year	\$ 268,364,597	\$ 259,950,115	\$ 235,400,360

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, 2010, with comparative figures for 2009

	Budget (unaudited - note 13)	2010	2009
Annual surplus	\$ 32,964,237	\$ 24,549,755	\$ 12,204,520
Acquisition of tangible capital assets	(42,878,700)	(14,411,692)	(13,639,268)
Decrease (increase) in land held for resale	-	786,048	(554,994)
Amortization of tangible capital assets	-	4,632,099	4,445,633
Gain on sale of tangible capital assets	-	(662)	(3,800)
Loss on sale of tangible capital assets	-	496,164	86,700
Proceeds on sale of tangible capital assets	-	54,250	13,800
Loss on sale of land held for resale	-	157,020	9,291
Proceeds on sale of land held for resale	-	397,974	190,858
Sewer capital recovery fees	-	(1,594,685)	(1,206,970)
Developer contributions of tangible capital assets	(13,590,000)	(14,419,881)	(5,144,690)
Write down of tangible capital assets	-	-	1,251,450
Change in proportionate share of West Shore	-	(339,456)	(703,210)
	(23,504,463)	306,934	(3,050,680)
Consumption of prepaid expenses	-	-	130,182
Acquisition of prepaid expenses	-	(19,317)	-
	-	(19,317)	130,182
Change in net financial assets (debt)	(23,504,463)	287,617	(2,920,498)
Net debt, beginning of year	(27,752,828)	(27,752,828)	(24,832,330)
Net debt, end of year	\$ (51,257,291)	\$ (27,465,211)	\$ (27,752,828)

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

CITY OF LANGFORD

Consolidated Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 24,549,755	\$ 12,204,520
Items not involving cash:		
Amortization of tangible capital assets	4,632,099	4,445,633
Gain on sale of tangible capital assets	(662)	(3,800)
Loss on sale of tangible capital assets	496,164	86,700
Developer contributions of tangible capital assets	(14,419,881)	(5,144,690)
Sewer capital recovery fees	(1,594,685)	(1,206,970)
Write down of tangible capital assets	-	1,251,450
Loss on sale of land held for resale	157,020	9,291
Actuarial adjustment on debt	(287,562)	(260,975)
Change in proportionate share of West Shore	(339,456)	(703,210)
Changes in non-cash operating assets and liabilities:		
Property taxes receivable	60,889	(1,763,140)
Accounts receivable	(2,976,055)	390,429
Other assets	(3,472)	(161,173)
Accounts payable and accrued liabilities	1,189,150	(1,989,210)
Prepaid property taxes and licences	118,635	(277,639)
Deferred revenue	(733,585)	(773,268)
Refundable deposits	(50,805)	200,620
Prepaid expenses	(19,317)	130,182
	<u>10,778,232</u>	<u>6,434,750</u>
Capital activities:		
Acquisition of tangible capital assets	(14,411,692)	(13,639,268)
Decrease (increase) in land held for resale	786,048	(554,994)
Proceeds on sale of land held for resale	397,974	190,858
Proceeds on sale of tangible capital assets	54,250	13,800
	<u>(13,173,420)</u>	<u>(13,989,604)</u>
Financing activities:		
Capital lease proceeds	-	624,689
Capital lease payments	(42,218)	(40,981)
Short-term debt proceeds	3,225,937	4,306,927
Long-term debt proceeds	284,280	-
Long-term debt payments	(439,523)	(425,375)
	<u>3,028,476</u>	<u>4,465,260</u>
Increase (decrease) in cash and cash equivalents	633,288	(3,089,594)
Cash and cash equivalents, beginning of year	9,406,956	12,496,550
Cash and cash equivalents, end of year	<u>\$ 10,040,244</u>	<u>\$ 9,406,956</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 661,068	\$ 619,360
Cash received from interest	116,940	89,557

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

CITY OF LANGFORD

Notes to Consolidated Financial Statements

Year ended December 31, 2010

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, 2010

1. Significant accounting policies (continued):

(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 equivalents:

Cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition.

(g) Investments:

Investments are recorded at cost. Investments in the Municipal Finance Authority of British Columbia ("MFA") Money Market Funds are recorded at cost plus earnings reinvested in the funds.

(h) Long-term debt:

Long-term debt is recorded net of related sinking fund balances.

(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, 2010

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(i) Tangible capital assets (continued)

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, 2010

1. Significant accounting policies (continued):

(j) 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, estimating provisions for accrued liabilities and in performing actuarial valuations of employee future benefits. Actual results could differ from these estimates.

2. Restatement:

During the year, it was identified that donated land of \$886,500 had not been accounted for in the adoption of PSAB Section 3150, Tangible Capital Assets. The donations occurred prior to January 1, 2009. The amount has been recorded as an increase to tangible capital assets and accumulated surplus at January 1, 2009. The adjustment has no impact on the annual surplus, change in net debt, or cash flows in 2009.

3. Cash and cash equivalents:

	2010	2009
West Shore Parks and Recreation Society - bank deposits	\$ 838,970	\$ 1,321,741
Bank deposits	9,201,274	8,085,215
Total	\$ 10,040,244	\$ 9,406,956

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

4. Deferred revenue:

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

	2010	2009
Federal Gas Tax funds	\$ 1,684,716	\$ 1,205,561
Development cost charges	8,409,130	9,475,056
Hotel room tax	186,328	108,020
Other	149,264	374,386
Total deferred revenue	\$ 10,429,438	\$ 11,163,023

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.

	2010	2009
Opening balance of unspent funds	\$ 1,205,561	\$ 719,494
Add:		
Amounts received during the year	653,644	663,042
Interest earned	13,878	8,702
	1,873,083	1,391,238
Less amount spent on projects and recorded as revenue	(188,367)	(185,677)
	\$ 1,684,716	\$ 1,205,561

Development cost charges:

	2010	2009
Opening balance of unspent funds	\$ 9,475,056	\$ 10,800,180
Add:		
Development cost charges received during year	1,318,892	1,988,950
Interest earned	53,206	85,156
	10,847,154	12,874,286
Less amount spent on projects and recorded as revenue	(2,438,024)	(3,399,230)
	\$ 8,409,130	\$ 9,475,056

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

5. Debt:

(a) Short-term debt:

Short-term debt is comprised on an interim financing facility through the TD Bank and bears interest at the Bankers Acceptance Rate plus stamping fee or prime minus 35 basis points.

(b) Long-term debt:

The City issues long-term debt instruments through the MFA. Most debt is issued on a sinking fund basis, where the MFA invests the City's sinking fund 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 sinking fund assets. The amount payable of \$2,581,221 (2009 - \$3,308,306) is net of the sinking fund balance of \$6,613,727 (2009 -\$5,886,611).

Included in long-term debt is the City's proportionate share of a West Shore five year fixed rate term loan for \$284,280.

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

	General	Sewer	Total
2011	\$ 134,715	\$ 304,800	\$ 439,515
2012	134,715	260,080	394,795
2013	134,715	141,212	275,927
2014	100,653	128,653	229,306
2015	45,865	97,523	143,388

(d) Maturities and interest rates:

Existing long-term debt matures in annual amounts to the year 2016 and debenture interest is payable at rates ranging from 3.15% to 6.35%.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

5. Debt (continued):

(e) Capital lease obligations:

Year ending December 31:		
2011	\$	49,780
2012		49,780
2013		49,780
2014		428,995
		<hr/>
		578,335
Less amount representing interest (at rates ranging from 1.3% to 1.6%)		(17,354)
		<hr/>
Present value of net minimum capital lease payments	\$	560,981

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

6. Tangible capital assets:

	Land	Land improvements	Buildings	Vehicles, machinery, equipment	Sewer and storm infrastructure	Roads infrastructure	Assets under construction	West Shore	Total 2010	Total 2009
Cost:										
Opening	\$92,301,091	8,033,763	19,514,111	5,798,991	34,491,818	76,185,582	20,080,409	27,351,185	\$283,756,950	\$266,013,160
Additions	7,814,878	1,235,124	189,028	650,845	2,463,519	8,590,619	8,136,019	1,326,119	30,406,151	18,783,958
Disposals	(253,000)	-	(199,716)	(148,795)	-	(125,199)	(1,574,578)	(5,123)	(2,306,411)	(1,878,453)
Change in share	-	-	-	-	-	-	-	411,936	411,936	838,285
Balance, end of year	99,862,969	9,268,887	19,503,423	6,301,041	36,955,337	84,651,002	26,641,850	29,084,117	312,268,626	283,756,950
Accumulated amortization:										
Opening	-	1,651,318	2,344,409	2,493,866	4,567,972	17,088,757	-	4,812,414	32,958,736	29,451,053
Disposals	-	-	(31,821)	(108,510)	-	(38,164)	-	(3,586)	(182,081)	(530,303)
Amortization	-	360,736	403,994	467,999	618,622	1,769,922	-	463,851	4,085,124	3,902,911
Change in share	-	-	-	-	-	-	-	72,480	72,480	135,075
Balance, end of year	-	2,012,054	2,716,582	2,853,355	5,186,594	18,820,515	-	5,345,159	36,934,259	32,958,736
Net book value, end of year	\$99,862,969	7,256,833	16,786,841	3,447,686	31,768,743	65,830,487	26,641,850	23,738,958	\$275,334,367	\$250,798,214

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

6. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$26,641,850 (2009 - \$20,080,409) have not been amortized. Amortization of these assets will commence when the asset is put into service. Major construction contracts of \$8,600,000 were in process at December 31, 2010 with estimated costs to complete of \$5,000,000.

Included in assets under construction is \$16,482,276 for work done on the Spencer 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, 2010 the cost of the assets to be transferred totaled \$15,875,663.

(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 \$14,419,881 (2009 - \$5,144,690) comprised of land \$6,187,515 (2009 - \$3,666,710), land improvements \$367,700 (2009 - nil), sewer and storm infrastructure \$2,117,756 (2009 - \$794,170) and roads infrastructure \$5,746,910 (2009 - \$683,810).

(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:

The write-down of tangible capital assets during the year was nil (2009 - \$1,251,450).

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

7. 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 (2010 - \$205,195) 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	\$ 32,145,838	\$ 205,195	\$ -	\$ 32,351,033
Accumulated amortization	(2,022,060)	(546,975)	-	(2,569,035)
	30,123,778	(341,780)	-	29,781,998
Remaining cost to be recovered	(25,213,125)	(205,195)	1,594,685	(23,823,635)
	\$ 4,910,653	\$ (546,975)	\$ 1,594,685	\$ 5,958,363

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

8. Accumulated surplus:

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

	2010	2009
Surplus:		
Invested in tangible capital assets (note 2)	\$255,615,384	\$232,772,435
Invested in land held for resale	5,958,139	7,299,181
Other	(4,034,239)	(6,872,318)
Total surplus	257,539,284	233,199,298
Reserves set aside by Council:		
Future assessment appeals	-	888,943
Future operational contingencies	572,543	685,757
Carry-forward capital projects	-	127,744
West Shore	663,272	450,886
Total reserves	1,235,815	2,153,330
Reserve funds set aside for specific purposes by Council:		
Capital works	(2,998,873)	(3,665,150)
Archeological assessment	59,652	33,437
Affordable housing	590,228	532,399
Parks and open space	1,830,800	1,771,182
Parkland improvement	310,102	228,856
General amenity	708,236	478,107
Statues, art, beautification	101,207	100,795
Equipment replacement	(9,240)	261,511
City park	(561,145)	(865,112)
Sidewalk capital	19,066	25,969
Bear Mountain firehall	783,647	651,616
Special police capital	226,823	225,457
ALR acquisition	136,806	105,552
South Langford storm water	(42,370)	143,158
School crossing guard	7	7
Downtown parking	20,070	19,948
Total reserve funds	1,175,016	47,732
	\$259,950,115	\$235,400,360

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

9. Taxation:

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

	2010	2009
General	\$ 19,270,617	\$ 17,586,631
Revenue in lieu of taxes	101,497	92,126
Collections for other governments	23,072,640	20,591,470
1% utility taxes	297,100	270,181
	42,741,854	38,540,408
Less taxes levied for other authorities:		
Capital Regional District - General Operating	2,742,544	2,515,151
Revenue in lieu of taxes	79,178	69,784
Capital Regional Hospital District	2,093,253	1,461,761
School Authorities	15,971,502	14,666,847
BC Assessment Authority	506,840	452,543
Municipal Finance Authority	1,421	1,282
BC Transit	1,677,902	1,424,102
	23,072,640	20,591,470
	\$ 19,669,214	\$ 17,948,938

10. 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:

	2010	2009
Operating transfers:		
Federal	\$ 20,969	\$ 26,784
Provincial	430,593	771,713
Other	467,894	455,137
	919,456	1,253,634
Capital transfers:		
Provincial	4,675,158	1,374,579
Total revenue	\$ 5,594,614	\$ 2,628,213

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

11. 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 defined. The plan has about 163,000 active members and approximately 60,000 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 \$549,250 (2009 - \$464,541) for employer contributions while employees contributed \$456,154 (2009 - \$464,437) to the Plan in fiscal 2010.

12. 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, 2010

12. 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, 2010 there were contingent demand notes of \$398,980 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 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 2011 estimated cost of this contract is \$3,800,000.

13. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2010 operating and capital budgets approved by Council on February 15, 2010. Amortization expense was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

13. Budget data (continued):

	Budget amount
Revenues:	
Operating budget	\$ 26,211,450
Capital budget	42,878,700
West Shore	3,005,728
Less:	
Transfers from own funds	(4,203,400)
Proceeds on debt issue	(8,222,900)
Total revenue	59,669,578
Expenses:	
Operating budget	26,062,850
Capital budget	42,878,700
West Shore	3,788,791
Less:	
Capital expenses	(42,878,700)
Transfer to own funds	(1,412,300)
Debt principal payments	(1,734,000)
Total expenses	26,705,341
Annual surplus	\$ 32,964,237

14. 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 2010, the City's share of improvements purchased by the Society on its behalf is \$1,326,119.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

14. 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 2010, the City recorded a gain of \$339,456.

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, 2010 was \$1,206,000.

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 2010, the City's proportion for consolidation purposes was 47.380% (2009 - 46.677%).

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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

(b) Consolidation (continued):

Condensed financial information for the Society is as follows:

	2010	2009
Financial assets	\$ 2,809,521	\$ 3,085,770
Financial liabilities	2,205,113	1,841,117
Net financial assets	604,408	1,244,653
Non-financial assets	795,491	758,343
Accumulated surplus	\$ 1,399,899	\$ 2,002,996
Invested in tangible capital assets	\$ 779,067	\$ 743,107
Reserve funds	1,235,341	1,259,889
Other	(614,509)	-
	\$ 1,399,899	\$ 2,002,996
Revenues	\$ 7,051,888	\$ 5,501,066
Requisition from members	4,163,307	3,647,206
	11,215,195	9,148,272
Expenses	7,654,985	5,623,643
Requisition for members	4,163,307	3,647,206
	11,818,292	9,270,849
Annual deficit	\$ (603,097)	\$ (122,577)

15. 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, 2010

15. 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 with the City.

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 7) 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, 2010

15. Segmented information (continued):

2010	General Government Services	Protective Services	Engineering and Public Works	Community Services	Utility and Enterprise Services	Total
Revenue:						
Taxation	\$ 18,173,136	\$ -	\$ -	\$ -	\$ 1,496,078	\$ 19,669,214
Utility charges	-	-	-	-	5,000	5,000
Government transfers	917,099	366,254	598,553	3,712,708	-	5,594,614
Commercial leasing	77,931	152,641	-	120,745	-	351,317
Other	4,403,412	41,583	31,416	202,582	78,080	4,757,073
Licences and permits	121,090	1,002,635	716,190	450,932	-	2,290,847
Developer and property owner contributions	596,401	168,500	15,198,719	835,720	-	16,799,340
Sewer capital recovery fees	-	-	1,594,685	-	-	1,594,685
Development cost charges	-	-	640,730	1,797,294	-	2,438,024
Casino	188,080	100,000	771,638	249,000	-	1,308,718
Total revenue	24,477,149	1,831,613	19,551,931	7,368,981	1,579,158	54,808,832
Expenses:						
Salaries, wages and employee benefits	1,895,432	2,877,781	1,585,340	2,668,317	500	9,027,370
Contracted and general services	582,557	4,002,103	3,176,729	4,943,351	-	12,704,740
Materials, goods, supplies and utilities	498,046	297,346	394,385	460,696	-	1,650,473
Other	1,266,299	263,444	170,659	170,659	373,334	2,244,395
Amortization	278,210	373,516	2,335,577	1,097,821	546,975	4,632,099
Total expenses	4,520,544	7,814,190	7,662,690	9,340,844	920,809	30,259,077
Annual surplus (deficit)	\$ 19,956,605	\$ (5,982,577)	\$ 11,889,241	\$ (1,971,863)	\$ 658,349	\$ 24,549,755