

Consolidated Financial Statements of

CITY OF LANGFORD

Year ended December 31, 2009



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, 2009

Financial Statements

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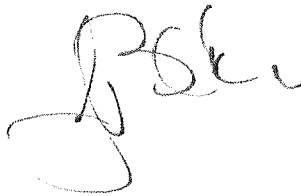
MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the City of Langford (the "City") are the responsibility of the City's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established 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 Municipal Council, acting through its Standing Committees, oversees management's responsibilities for the financial reporting and internal control systems. The Committees meet periodically with management and the external auditors to satisfy themselves that management responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to Council.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the City. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's consolidated financial statements.



Administrator



Treasurer



KPMG LLP
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AUDITORS' REPORT

To the Mayor and Councillors of the City of Langford

We have audited the consolidated statement of financial position of the City of Langford as at December 31, 2009 and the consolidated statements of operations, change in net debt and cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Victoria, Canada

April 16, 2010

CITY OF LANGFORD

Consolidated Statement of Financial Position

December 31, 2009, with comparative figures for 2008

	2009	2008
		(Restated - note 2)
Financial assets:		
Cash and cash equivalents (note 3)	\$ 9,406,956	\$ 12,496,550
Property taxes receivable	4,618,210	2,855,070
Accounts receivable	4,378,263	4,768,692
Other assets	175,962	14,789
	<u>18,579,391</u>	<u>20,135,101</u>
Financial liabilities:		
Accounts payable and accrued liabilities	5,615,118	7,604,328
Prepaid property taxes and licences	425,204	702,843
Deferred revenue (note 4)	11,163,023	11,936,291
Refundable deposits	6,192,442	5,991,822
Debt (note 5):		
Short-term	19,024,927	14,718,000
Long-term	3,308,306	3,994,656
Capital lease obligations (note 5)	603,199	19,491
	<u>46,332,219</u>	<u>44,967,431</u>
Net debt	(27,752,828)	(24,832,330)
Non-financial assets:		
Tangible capital assets (note 6)	249,911,714	235,675,607
Sewer franchise agreement (note 7)	4,910,653	4,246,405
Land held for resale	7,299,181	6,944,336
Prepaid expenses	145,140	275,322
	<u>262,266,688</u>	<u>247,141,670</u>
Accumulated surplus (note 8)	\$ 234,513,860	\$ 222,309,340

Commitments and contingencies (note 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, 2009, with comparative figures for 2008

	Budget (unaudited - note 13)	2009	2008 (Restated - note 2)
Revenue:			
Taxation, net (note 9)	\$ 17,888,900	\$ 17,948,938	\$ 16,393,304
Development cost charges	4,777,400	3,422,432	4,446,395
Sewer capital recovery fees	-	1,206,970	1,897,470
Utility charges	5,000	5,000	5,000
Other	1,386,550	3,747,728	3,594,790
Licences and permits	1,497,400	1,724,566	2,256,274
Penalties and interest	332,500	586,631	362,054
Government transfers (note 10)	27,645,900	2,628,213	3,714,689
Commercial leasing	326,200	368,429	329,654
Casino	1,200,000	1,332,637	1,400,163
Investment earnings	178,000	(20,298)	131,326
Developer and property owner contributions	20,101,000	8,092,734	4,590,338
Gain on sale of tangible capital assets	-	3,800	6,946
Total revenue	75,338,850	41,047,780	39,128,403
Expenses:			
General government services:			
Legislative	303,000	283,033	332,191
Administrative	2,028,200	2,574,954	2,511,856
Other	879,100	805,891	610,976
	3,210,300	3,663,878	3,455,023
Protective services:			
Police and bylaw enforcement	4,838,400	4,720,933	4,331,977
Fire protection and emergency response	2,000,100	2,397,702	2,173,128
Building inspection and other	556,000	543,630	712,627
	7,394,500	7,662,265	7,217,732
Engineering and public works:			
Common services	868,500	963,313	838,887
Subdivision services	428,200	468,005	425,960
Roads, streets and storm drainage	4,031,000	5,229,243	3,544,363
	5,327,700	6,660,561	4,809,210
Community services:			
Environmental and development services	1,246,800	1,122,408	1,136,983
Recreation and cultural services	5,013,600	5,184,533	3,888,808
West Shore Parks and Recreation (note 14)	-	2,267,003	873,185
	6,260,400	8,573,944	5,898,976
Utility and enterprise services:			
Sewer infrastructure	-	1,896,931	805,885
Sewer maintenance	-	519	1,572
Debt interest	434,000	385,162	522,033
	434,000	2,282,612	1,329,490
Total expenses	22,626,900	28,843,260	22,710,431
Annual surplus	52,711,950	12,204,520	16,417,972
Accumulated surplus, beginning of year	222,309,340	222,309,340	205,891,368
Accumulated surplus, end of year	\$ 275,021,290	\$ 234,513,860	\$ 222,309,340

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, 2009, with comparative figures for 2008

	Budget (unaudited - note 13)	2009	2008 (Restated - note 2)
Annual surplus	\$ 52,711,950	\$ 12,204,520	\$ 16,417,972
Acquisition of tangible capital assets	(64,597,900)	(13,639,268)	(24,338,989)
Increase in land held for resale	-	(554,994)	-
Amortization of tangible capital assets	-	4,445,633	4,232,074
Gain on sale of tangible capital assets	-	(3,800)	(6,946)
Loss on sale of tangible capital assets	-	86,700	-
Proceeds on sale of tangible capital assets	-	13,800	6,946
Loss on sale of land held for resale	-	9,291	-
Proceeds on sale of land held for resale	-	190,858	-
Sewer capital recovery fees	-	(1,206,970)	(1,897,470)
Developer contributions of tangible capital assets	(20,101,000)	(5,144,690)	(1,231,875)
Write down of tangible capital assets	-	1,251,450	-
Change in proportionate share of West Shore	-	(703,210)	(1,509,458)
	(31,986,950)	(3,050,680)	(8,327,746)
Consumption (acquisition) of prepaid expenses	-	130,182	(109,831)
	-	130,182	(109,831)
Change in net debt	(31,986,950)	(2,920,498)	(8,437,577)
Net debt, beginning of year	(24,832,330)	(24,832,330)	(16,394,753)
Net debt, end of year	\$ (56,819,280)	\$ (27,752,828)	\$ (24,832,330)

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

CITY OF LANGFORD

Consolidated Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008 (Restated - note 2)
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 12,204,520	\$ 16,417,972
Items not involving cash:		
Amortization of tangible capital assets	4,445,633	4,232,074
Gain on sale of tangible capital assets	(3,800)	(6,946)
Loss on sale of tangible capital assets	86,700	-
Developer contributions of tangible capital assets	(5,144,690)	(1,231,875)
Sewer capital recovery fees	(1,206,970)	(1,897,470)
Write down of tangible capital assets	1,251,450	-
Loss on sale of land held for resale	9,291	-
Actuarial adjustment on debt	(260,975)	(231,545)
Change in proportionate share of West Shore	(703,210)	(1,509,458)
Change in non-cash operating assets and liabilities:		
Property taxes receivable	(1,763,140)	(1,854,549)
Accounts receivable	390,429	3,865,655
Other assets	(161,173)	5,211
Accounts payable and accrued liabilities	(1,989,210)	1,854,302
Prepaid property taxes and licences	(277,639)	309,972
Deferred revenue	(773,268)	(558,890)
Refundable deposits	200,620	285,334
Prepaid expenses	130,182	(109,831)
	6,434,750	19,569,956
Capital activities:		
Acquisition of tangible capital assets	(13,639,268)	(24,338,989)
Increase in land held for resale	(554,994)	-
Proceeds on sale of land held for resale	190,858	-
Proceeds on sale of tangible capital assets	13,800	6,946
	(13,989,604)	(24,332,043)
Financing activities:		
Capital lease proceeds	624,689	-
Capital lease payments	(40,981)	(22,713)
Short-term debt proceeds	4,306,927	3,303,706
Long-term debt payments	(425,375)	(425,375)
	4,465,260	2,855,618
Decrease in cash and cash equivalents	(3,089,594)	(1,906,469)
Cash and cash equivalents, beginning of year	12,496,550	14,403,019
Cash and cash equivalents, end of year	\$ 9,406,956	\$ 12,496,550
Supplemental cash flow information:		
Cash paid for interest	\$ 619,360	\$ 928,583
Cash received from interest	89,557	510,050

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

CITY OF LANGFORD

Notes to Consolidated Financial Statements

Year ended December 31, 2009

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 generally accepted accounting principles 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 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 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, 2009

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, 2009

1. Significant accounting policies (continued):

(i) Non-financial assets (continued):

(i) Tangible capital assets (continued)

Annual amortization is charged in the year of acquisition and in the year of 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, 2009

1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 provisions for accrued liabilities and in performing actuarial valuations of employee future benefits.

In addition, the City's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

2. Change in accounting policy:

The City has implemented PSAB sections 1200 Financial Statement Presentation and 3150 Tangible Capital Assets. Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. The financial statement format has been changed from prior years to comply with this standard. Section 3150 requires governments to record and amortize their tangible capital assets in their financial statements. In prior years, tangible capital asset additions were recorded as expenditures and then were set up as capital assets in the Statement of Financial Position. The capital assets were not amortized.

Methods used for determining the cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The City applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, indices including the consumer price index were used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

This change has been applied retroactively and prior periods have been restated. This change in accounting policy has changed amounts reported in the prior period as follows:

Accumulated surplus at January 1, 2008:

Operating fund balance	\$ 4,737,963
Capital fund balance	(8,418,097)
Reserves	1,169,712
Reserve funds	2,469,642
Equity in physical assets	137,431,497
Accumulated surplus, as previously reported	137,390,717
Change in net book value of tangible capital assets	68,627,761
Deferred revenue, seniors	(127,110)
Accumulated surplus, as restated	\$205,891,368

Annual surplus (deficit) for 2008:

Net expenditures, as previously reported	\$ (7,308,907)
Assets capitalized but previously expensed	28,032,157
Amortization expense not previously recorded	(4,232,074)
Seniors revenue previously recognized	(73,204)
Annual surplus, as restated	\$ 16,417,972

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

3. Cash and cash equivalents:

	2009	2008
West Shore Parks and Recreation Society - bank deposits	\$ 1,321,741	\$ 1,211,085
Bank deposits	8,085,215	10,113,546
MFA - Money Market Fund	-	1,171,919
Total	\$ 9,406,956	\$ 12,496,550

4. Deferred revenue:

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

	2009	2008
Federal Gas Tax funds	\$ 1,205,561	\$ 719,494
Development cost charges	9,475,056	10,800,180
Hotel room tax	108,020	11,502
Other	374,386	405,115
Total deferred revenue	\$ 11,163,023	\$ 11,936,291

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.

	2009	2008
Opening balance of unspent funds	\$ 719,494	\$ 468,883
Add:		
Amounts received during the year	663,042	332,274
Interest earned	8,702	18,242
	1,391,238	819,399
Less amount spent on projects and recorded as revenue	(185,677)	(99,905)
	\$ 1,205,561	\$ 719,494

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

4. Deferred revenue (continued):

Development cost charges:

	2009	2008
Opening balance of unspent funds	\$ 10,800,180	\$ 10,878,893
Add:		
Development cost charges received during year	1,988,950	3,935,484
Interest earned	85,156	432,198
	12,874,286	15,246,575
Less amount spent on projects and recorded as revenue	(3,399,230)	(4,446,395)
	\$ 9,475,056	\$ 10,800,180

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 110 basis points.

(b) Long-term debt:

The City issues long-term debt instruments through the MFA. The amount payable of \$3,308,306 (2008 - \$3,994,656) is net of the sinking fund balance of \$5,886,611 (2008 - \$5,209,623).

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

	General	Sewer	Total
2010	\$ 129,527	\$ 295,849	\$ 425,376
2011	129,527	295,849	295,849
2012	129,527	251,129	380,656
2013	129,527	132,261	261,788
2014	95,465	119,702	215,167

(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 5.69% to 7.421%.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

5. Debt (continued):

(e) Capital lease liability:

Year ending December 31:		
2010	\$	49,780
2011		49,780
2012		49,780
2013		49,780
2014		433,300
		<hr/>
		632,420
Less amount representing interest (at rates ranging from 1.3% to 1.6%)		29,221
Present value of net minimum capital lease payments	\$	<hr/> 603,199 <hr/>

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

6. Tangible capital assets:

	Land	Land improvements	Buildings	Vehicles, machinery, equipment	Sewer and storm Infrastructure	Roads infrastructure	Assets under construction	West Shore	Total 2009	Total 2008
Cost:										
Opening	\$87,481,881	6,335,823	16,376,886	5,228,804	34,544,807	69,987,214	18,968,318	26,202,927	\$265,126,660	\$238,015,374
Additions	3,666,710	1,697,940	3,403,225	911,859	1,447,011	6,235,149	1,112,091	309,973	18,783,958	25,570,864
Disposals	-	-	-	(341,672)	(1,500,000)	(36,781)	-	-	(1,878,453)	(167,950)
Change in share	-	-	-	-	-	-	-	838,285	838,285	1,708,372
Balance, end of year	91,148,591	8,033,763	19,780,111	5,798,991	34,491,818	76,185,582	20,080,409	27,351,185	282,870,450	265,126,660
Accumulated amortization:										
Opening	-	1,357,628	1,956,658	2,311,445	4,215,020	15,388,172	-	4,222,130	29,451,053	25,674,448
Disposals	-	-	-	(268,253)	(248,550)	(13,500)	-	-	(530,303)	(167,950)
Amortization	-	293,690	387,751	450,674	601,502	1,714,085	-	455,209	3,902,911	3,698,939
Change in share	-	-	-	-	-	-	-	135,075	135,075	245,616
Balance, end of year	-	1,651,318	2,344,409	2,493,866	4,567,972	17,088,757	-	4,812,414	32,958,736	29,451,053
Net book value, end of year	\$91,148,591	6,382,445	17,435,702	3,305,125	29,923,846	59,096,825	20,080,409	22,538,771	\$249,911,714	\$235,675,607

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

6. Tangible capital assets (continued):

(a) Assets under construction

Assets under construction having a value of \$20,080,409 (2008 - \$18,968,318) have not been amortized. Amortization of these assets will commence when the asset is put into service. Major construction contracts of \$10,200,000 were in process at December 31, 2009 with estimated costs to complete of \$5,300,000.

Included in assets under construction is \$14,818,377 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, 2009 the cost of the assets to be transferred totalled \$14,278,326.

(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 \$5,144,690 (2008 - \$1,231,875) comprised of land \$3,666,710 (2008 - \$nil), sewer and storm infrastructure \$794,170 (2008 - \$nil) and roads infrastructure \$683,810 (2008 - \$1,231,875).

(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 \$1,251,450 (2008 - \$nil).

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

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 are frozen for five years from the implementation of the agreement. 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 (2009 - \$210,184) 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	\$ 31,935,654	\$ 210,184	\$ -	\$ 32,145,838
Accumulated amortization	(1,479,338)	(542,722)	-	(2,022,060)
	30,456,316	(332,538)	-	30,123,778
Remaining cost to be recovered	(26,209,911)	(210,184)	1,206,970	(25,213,125)
	-	-	-	-
	\$ 4,246,405	\$ (542,722)	\$ 1,206,970	\$ 4,910,653

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

8. Accumulated surplus:

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

	2009	2008
Surplus:		
Invested in tangible capital assets	\$231,885,935	\$221,189,865
Invested in land held for resale	7,299,181	6,944,336
Other	(6,872,318)	(8,968,143)
Total surplus	232,312,798	219,166,058
Reserves set aside by Council:		
Future assessment appeals	888,943	922,931
Future operational contingencies	685,757	625,594
Carry-forward capital projects	127,744	-
West Shore	450,886	482,366
Total reserves	2,153,330	2,030,891
Reserve funds set aside for specific purposes by Council:		
Capital works	(3,665,150)	(2,694,976)
Archeological assessment	33,437	11,963
Affordable housing	532,399	471,590
Parks and open space	1,771,182	1,560,218
Parkland improvement	228,856	88,898
General amenity	478,107	301,608
Statues, art, beautification	100,795	100,270
Equipment replacement	261,511	396,658
City park	(865,112)	(1,201,601)
Sidewalk capital	25,969	169,020
Bear Mountain firehall	651,616	481,084
Special police capital	225,457	221,173
Westhills amenity	-	1,101,206
ALR acquisition	105,552	31,778
South Langford storm water	143,158	63,720
School crossing guard	7	4
Downtown parking	19,948	9,778
Total reserve funds	47,732	1,112,391
	\$234,513,860	\$222,309,340

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

9. Taxation:

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

	2009	2008
General	\$ 17,586,631	\$ 16,068,295
Revenue in lieu of taxes	92,126	86,633
Collections for other governments	20,591,470	19,022,483
1% utility taxes	270,181	238,376
	38,540,408	35,415,787
Less taxes levied for other authorities:		
Capital Regional District - General Operating	2,515,151	2,422,742
Revenue in lieu of taxes	69,784	64,262
Capital Regional Hospital District	1,461,761	1,223,728
School Authorities	14,666,847	13,707,946
BC Assessment Authority	452,543	414,476
Municipal Finance Authority	1,282	856
Victoria Regional Transit Authority	1,424,102	1,188,473
	20,591,470	19,022,483
	\$ 17,948,938	\$ 16,393,304

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

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:

	2009	2008
Operating transfers:		
Federal	\$ 26,784	\$ 76,910
Provincial	771,713	350,486
Other	455,137	419,614
	1,253,634	847,010
Capital transfers:		
Provincial	1,374,579	2,767,775
Other	-	99,904
Subtotal federal grants	1,374,579	2,867,679
Total revenue	\$ 2,628,213	\$ 3,714,689

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 158,000 active members and approximately 57,000 retired members. Active members include approximately 33,000 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, 2006 indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009, with results available in 2010. The actuary does not attribute portions of the surplus to individual employers. The City paid \$464,541 (2008 - \$448,128) for employer contributions to the Plan in fiscal 2009.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

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*.

The City may be subject to potential repayment or non-collection of property taxes received or receivable pending resolution of property assessments appealed by taxpayers. The outcome of the appeals is not reasonably estimable and repayments or non-collections, if any, will be recorded in the period that they occur. The City has allocated operating funds to reserve for future expenses to insure against future repayments or non-collection of these taxes.

(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, 2009 there were contingent demand notes of \$156,901 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.

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

12. Commitments and contingencies (continued):

(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 2010 estimated cost of this contract is \$3,617,000.

13. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2009 operating and capital budgets approved by Council on May 11, 2009. Amortization 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.

	Budget amount
Revenues:	
Operating budget	\$ 26,704,100
Capital budget	64,597,900
Less:	
Transfers from own funds	(7,747,900)
Proceeds on debt issue	(8,215,250)
Total revenue	75,338,850
Expenses:	
Operating budget	26,725,105
Capital budget	64,597,900
Less:	
Capital expenses	(64,597,900)
Transfer to own funds	(1,689,505)
Debt principal payments	(2,408,700)
Total expenses	22,626,900
Annual surplus	\$ 52,711,950

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

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 2009, the City's share of improvements purchased by the Society on its behalf is \$265,427.

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 2009, the City recorded a gain of \$703,210.

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, 2009 was \$1,525,000.

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 2009, the City's proportion for consolidation purposes was 46.677% (2008 - 45.23%).

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

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

(b) Consolidation (continued):

Condensed financial information for the Society is as follows:

	2009	2008
Financial assets	\$ 3,085,770	\$ 2,946,046
Financial liabilities	1,841,117	1,565,860
Net financial assets	1,244,653	1,380,186
Non-financial assets	758,343	745,387
Accumulated surplus	\$ 2,002,996	\$ 2,125,573
Invested in tangible capital assets	\$ 743,107	\$ 736,893
Reserve funds	1,259,889	1,388,680
	\$ 2,002,996	\$ 2,125,573
Revenues	\$ 5,501,066	\$ 4,815,341
Requisition from members	3,647,206	3,583,724
	9,148,272	8,399,065
Expenses	5,623,643	5,125,075
Requisition for members	3,647,206	3,583,724
	9,270,849	8,708,799
Net revenues (expenses)	\$ (122,577)	\$ (309,734)

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 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:

CITY OF LANGFORD

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009

15. Segmented information (continued):

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, 2009

15. Segmented information (continued):

2009	General Government Services	Protective Services	Engineering and Public Works	Community Services	Utility and Enterprise Services	Total
Revenue:						
Taxation	\$ 16,462,155	\$ -	\$ -	\$ -	\$ 1,486,782	\$ 17,948,937
Utility charges	-	-	-	-	5,000	5,000
Government transfers	597,138	387,504	588,857	1,054,713	-	2,628,212
Commercial leasing	38,522	152,641	68,000	109,267	-	368,430
Other	1,437,565	54,647	79,314	2,621,554	124,782	4,317,862
Licences and permits	-	951,950	398,253	374,363	-	1,724,566
Developer and property owner contributions	357,730	231,620	6,759,824	743,560	-	8,092,734
Sewer capital recovery fees	-	-	1,206,970	-	-	1,206,970
Development cost charges	-	-	2,528,668	893,764	-	3,422,432
Casino	981,565	100,000	-	251,072	-	1,332,637
Total revenue	19,874,675	1,878,362	11,629,886	6,048,293	1,616,564	41,047,780
Expenses:						
Salaries, wages and employee benefits	2,205,577	2,682,068	1,529,177	1,868,650	519	8,285,991
Contracted and general services	525,670	3,949,659	2,843,189	3,967,540	-	11,286,058
Materials, goods, supplies and utilities	466,829	432,648	417,704	678,702	-	1,995,883
Other	146,468	239,929	176,046	630,640	1,636,612	2,829,695
Amortization	319,334	357,961	1,694,445	1,428,412	645,481	4,445,633
Total expenses	3,663,878	7,662,265	6,660,561	8,573,944	2,282,612	28,843,260
Annual surplus (deficit)	\$ 16,210,797	\$ (5,783,903)	\$ 4,969,325	\$ (2,525,651)	\$ (666,048)	\$ 12,204,520