

2014-139

MEMORANDUM

**TO:** Mayor and Council  
**FROM:** Municipal Treasurer  
**DATE:** May 5, 2014  
**RE:** Presentation of the Draft 2013 Financial Statements and Audit Findings Report

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**BACKGROUND:**

The draft 2013 financial statements and the Audit Findings Report for the District are attached as Appendix A and B respectively and will be presented by a representative of KPMG, our auditors, who will be available for questions.

**DISCUSSION:**

The financial statements are in draft format. They have been prepared 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 (PSAB). These standards affect the recognition and timing of certain transactions, and therefore some of the transactions appearing in the 2013 budget document will not appear in the financial statements, and vice versa.

The reason for the statements being in draft form is that Canadian Auditing Standards require that those with the recognized authority must have asserted that they have taken responsibility for the financial statements. The Ministry of Community, Sport and Cultural Development has determined that for municipalities this standard should be interpreted as dictating that the date of the auditor's report must be no earlier than the date of approval of the financial statements, in final form, by the council of the local government. Similarly, the statement regarding Management's Responsibility for the financial statements cannot be signed and dated until after Council's approval.

The Audit Findings Report summarized the approach that was taken in the audit, the differences that were found and whether or not they were corrected. It also provides Council with the required confirmation of independence.

**OPTIONS:**

Council has two options in how to deal with the 2013 financial statements: if Council is satisfied that the financial statements properly reflect the financial operations of the municipality, in accordance with PSAB, it can decide to approve them. Alternately, if Council is not satisfied with the financial statements, it can decide not to approve them.

Council can elect to receive or reject the 2013 Audit Findings Report.

**FINANCIAL IMPACT:**

None.

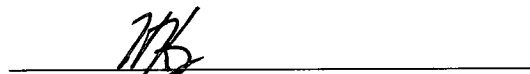
**RECOMMENDATION:**

That Council approves the 2013 financial statements as shown in Appendix A, and receives the 2013 Audit Findings Report as shown in Appendix B.



Patricia Walker

I concur with the recommendation of the Municipal Treasurer



Helen Koning  
Chief Administrative Officer

**APPENDIX A**

***DRAFT*** Financial Statements of

**THE CORPORATION OF THE  
DISTRICT OF OAK BAY**

Year ended December 31, 2013

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Financial Statements

***DRAFT***

Year ended December 31, 2013

## Financial Statements

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## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The accompanying financial statements of The Corporation of the District of Oak Bay (the "District") are the responsibility of management and have been prepared in compliance with legislation, and in accordance with public sector accounting principles established by The Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

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

Mayor and Council meet with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

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

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*Chief Administrative Officer*

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*Treasurer*

## INDEPENDENT AUDITORS' REPORT

*To the Mayor and Councillors of The Corporation of the District of Oak Bay*

We have audited the accompanying financial statements of The Corporation of the District of Oak Bay which comprise the statement of financial position as at December 31, 2013, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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, these financial statements present fairly, in all material respects, the financial position of The Corporation of the District of Oak Bay as at December 31, 2013, and its results of operations, its change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

Month DD, YYYY  
Victoria, Canada

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Financial Position

**DRAFT**

December 31, 2013, with comparative information for 2012

	2013	2012
<b>Financial assets:</b>		
Cash	\$ 173,133	\$ 1,185,195
Investments (note 2)	32,118,920	30,452,141
Taxes receivable	411,142	351,862
Other accounts receivable	889,184	815,949
	<u>33,592,379</u>	<u>32,805,147</u>
<b>Financial liabilities:</b>		
Accounts payable and accrued liabilities	2,161,855	2,053,670
Deposits	1,065,713	1,298,884
Prepaid property taxes	1,547,189	1,292,590
Deferred revenue (note 3)	4,522,262	4,229,628
Employee future benefit obligations (note 4)	1,774,400	1,626,600
Long-term debt (note 5)	3,220,527	3,314,073
	<u>14,291,946</u>	<u>13,815,445</u>
<b>Net financial assets</b>	19,300,433	18,989,702
<b>Non-financial assets:</b>		
Tangible capital assets (note 6)	51,044,004	49,548,291
Inventory of supplies	524,292	459,742
Prepaid expenses	307,497	337,724
	<u>51,875,793</u>	<u>50,345,757</u>
<b>Accumulated surplus (note 7)</b>	<u>\$ 71,176,226</u>	<u>\$ 69,335,459</u>

Commitments and contingent liabilities (note 9)

See accompanying notes to financial statements.

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Treasurer

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Statement of Operations and Accumulated Surplus

**DRAFT**

Year ended December 31, 2013, with comparative information for 2012

	Financial plan (note 11)	2013	2012
Revenue:			
Taxation, net (note 8)	\$ 20,175,759	\$ 20,187,305	\$ 19,212,195
Sales and services	6,799,515	6,809,408	6,555,279
Other revenues	2,284,769	1,359,933	1,441,378
Government transfers	784,380	759,967	640,424
Investment income	162,000	370,581	343,974
Sales of water and sewer charges	4,592,209	4,551,283	4,067,419
Total revenue	34,798,632	34,038,477	32,260,669
Expenses:			
General government	4,563,041	4,177,323	3,435,093
Protective services	8,420,764	8,884,060	8,168,066
Transportation services	2,679,597	3,075,352	3,041,034
Environmental health services	922,454	1,032,845	1,023,807
Recreation services	10,718,808	11,189,631	10,817,752
Water utilities	2,749,029	2,720,351	2,751,089
Sewer collection system	1,215,203	1,118,148	746,880
Total expenses	31,268,896	32,197,710	29,983,721
Annual surplus	3,529,736	1,840,767	2,276,948
Accumulated surplus, beginning of year	69,335,459	69,335,459	67,058,511
Accumulated surplus, end of year	\$ 72,865,195	\$ 71,176,226	\$ 69,335,459

See accompanying notes to financial statements.



# THE CORPORATION OF THE DISTRICT OF OAK BAY

## Statement of Change in Net Financial Assets

### **DRAFT**

Year ended December 31, 2013, with comparative information for 2012

	Financial plan (note 11)	2013	2012
Annual surplus	\$ 3,529,736	\$ 1,840,767	\$ 2,276,948
Acquisition of tangible capital assets	(4,515,657)	(3,569,925)	(2,410,155)
Amortization of tangible capital assets	-	1,805,200	1,710,239
Loss on disposal of tangible capital assets	-	255,612	26,363
Proceeds on disposal of tangible capital assets	-	13,400	57,250
	(4,515,657)	(1,495,713)	(616,303)
Use (acquisition) of inventory of supplies	-	(64,550)	30,926
Use of prepaid expenses	-	30,227	57,456
	-	(34,323)	88,382
Change in net financial assets	(985,921)	310,731	1,749,027
Net financial assets, beginning of year	18,989,702	18,989,702	17,240,675
Net financial assets, end of year	\$ 18,003,781	\$ 19,300,433	\$ 18,989,702

See accompanying notes to financial statements.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

## Statement of Cash Flows

### **DRAFT**

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
<b>Operating activities:</b>		
Annual surplus	\$ 1,840,767	\$ 2,276,948
Items not involving cash:		
Amortization of tangible capital assets	1,805,200	1,710,239
Loss on disposal of tangible capital assets	255,612	26,363
Change in non-cash operating assets and liabilities:		
Taxes receivable	(59,280)	50,539
Other accounts receivable	(73,235)	(158,329)
Accounts payable and accrued liabilities	108,185	43,210
Deposits	(233,171)	(798,724)
Prepaid property taxes	254,599	29,888
Deferred revenue	292,634	814,048
Employee future benefit obligations	147,800	114,600
Inventory of supplies	(64,550)	30,926
Prepaid expenses	30,227	57,456
	<u>4,304,788</u>	<u>4,197,164</u>
<b>Capital activities:</b>		
Acquisition of tangible capital assets	(3,569,925)	(2,410,155)
Proceeds on disposal of tangible capital assets	13,400	57,250
	<u>(3,556,525)</u>	<u>(2,352,905)</u>
<b>Investing activities:</b>		
Investments	(1,666,779)	(1,122,127)
<b>Financing activities:</b>		
Long-term debt issued	247,238	6,216
Long-term debt repaid	(340,784)	(300,433)
	<u>(93,546)</u>	<u>(294,217)</u>
Increase (decrease) in cash	(1,012,062)	427,915
Cash, beginning of year	1,185,195	757,280
Cash, end of year	<u>\$ 173,133</u>	<u>\$ 1,185,195</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 197,836	\$ 226,941
Cash received from interest	463,506	371,684

See accompanying notes to financial statements.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements

**DRAFT**

Year ended December 31, 2013

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The Corporation of the District of Oak Bay (the "District") was incorporated on July 2, 1906 under the Municipal Act, a statute of the Province of British Columbia. Its principal activities are the provision of local government services to residents of the incorporated area. These include administrative, protective, transportation, environmental, recreational, water, sewer and fiscal services.

## 1. Significant accounting policies:

The financial statements of the District are prepared by management in accordance with Canadian public sector accounting standards for local governments as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the District are as follows:

### (a) Reporting entity:

The financial statements include a combination of all the assets, liabilities, accumulated surplus, revenues and expenses of all of the District's activities and funds. Inter-departmental balances and organizational transactions have been eliminated.

#### (i) Consolidated entities

The District does not control any significant external entities and accordingly no entities have been consolidated with the financial statements.

#### (ii) Funds held in trust

The financial statements exclude trust assets that are administered for the benefit of external parties (note 10).

### (b) Basis of accounting:

The District follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

### (c) Government transfers:

Government transfers 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.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 1. Significant accounting policies (continued):

### (d) Deferred revenue:

Deferred revenue includes grants, contributions and other amounts received from third parties pursuant to legislation, regulation and agreement which may only be used in certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed, or the tangible capital assets are acquired.

### (e) Property tax revenue:

Property tax revenue is recognized on the accrual basis using the approved mill rates and the anticipated assessment related to the current year.

### (f) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on deferred revenue is added to the investment and forms part of the deferred revenue balance.

### (g) Investments:

Investments are recorded at cost. Investments in the Municipal Finance Authority of British Columbia ("MFA") Bond, Intermediate and 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 principal repayments and actuarial adjustments.

### (i) Employee future benefits:

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

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

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 1. Significant accounting policies (continued):

### (j) Non-financial capital 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	15 - 50
Building and building improvements	25 - 100
Machinery and equipment	3 - 30
IT equipment	5 - 8
Vehicles	10 - 20
Roads and drainage	25 - 100

Amortization is charged annually, including in the year of acquisition and disposal. Assets under construction are not amortized until the asset is available for productive use.

### (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 District does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 1. Significant accounting policies (continued):

### (i) Non-financial capital assets (continued):

#### (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) Inventories of supplies

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

### (k) Use of estimates:

The preparation of financial statements in conformity with 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.

### (l) Change in accounting policy:

#### Government Transfers:

The District adopted Public Sector Accounting Standard *PS 3410, Government Transfers* effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3410, government transfers with stipulations are recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met except when and to the extent the transfer gives rise to an obligation that meets the definition of a liability for the recipient government. There were no adjustments as a result of the adoption of this standard.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 1. Significant accounting policies (continued):

Property tax revenue:

The District adopted Public Sector Accounting Standard PS 3510, Tax Revenue effective January 1, 2013. This standard was adopted on a prospective basis.

Under PS 3510, local governments recognize property tax revenue using the approved mill rate and the anticipated assessment. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the statement of operations.

There were no adjustments as a result of the adoption of these standards.

## 2. Investments:

	2013	2012
MFA Money Market Fund	\$ 23,523,595	\$ 22,328,934
MFA Bond Fund	209,027	205,352
MFA Intermediate Fund	8,386,298	7,917,855
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	\$ 32,118,920	\$ 30,452,141

The fair value of the Funds approximates the recorded value.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

### 3. Deferred revenue:

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

	2013	2012
Gas Tax Agreement Funds balance	\$ 3,502,859	\$ 2,878,890
Unearned revenues	1,019,403	1,350,738
<b>Total deferred revenue</b>	<b>\$ 4,522,262</b>	<b>\$ 4,229,628</b>

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

#### Schedule of Gas Tax Agreement Funds

	2013	2012
Opening balance of unspent funds	\$ 2,878,890	\$ 2,327,286
Add:		
Amounts received during the year	531,044	531,268
Interest earned	92,925	27,710
	623,969	558,978
Less amount spent on projects and recorded as revenue	-	(7,374)
<b>Closing balance of unspent funds</b>	<b>\$ 3,502,859</b>	<b>\$ 2,878,890</b>



# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

## 4. Employee future benefit obligations:

The District provides sick leave and certain benefits to its employees. These amounts and other employee related liabilities will require funding in future periods and are set out below.

Accumulated sick leave represents the liability for sick leave banks accumulated for estimated draw downs at future dates. Retirement benefit payments represent the District's share of the cost to provide employees with various benefits upon retirement including lump sum retirement payments, death benefits, certain vacation entitlements in the year of retirement, and pension buyback arrangements for qualified employees. The accrued employee benefit obligations and the net periodic benefit cost were estimated by an actuarial valuation completed effective for December 31, 2013.

Information about liabilities for employee benefit plans is as follows:

	2013	2012
Accrued benefit liability, beginning of year	\$ 1,626,600	\$ 1,512,000
Service cost	116,800	111,600
Interest cost	51,900	51,300
Long-term disability expense	105,700	48,000
Amortization of net actuarial gain	(100)	(5,600)
Benefit payments	(126,500)	(90,700)
Accrued benefit liability, end of year	\$ 1,774,400	\$ 1,626,600

The difference between the actuarially accrued benefit obligation of \$1,650,000 (2012 - \$1,626,200) and the accrued benefit liability of \$1,774,400 (2012 - \$1,626,600) is an actuarial net gain of \$124,400 (2012 - net gain of \$400). This actuarial gain is being amortized over a period equal to the employees' average remaining service period of 10 years.

The total expense recorded in the financial statements in respect of obligations under this plan amounts to \$274,400 (2012 - \$205,300).

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

## 4. Employee future benefit obligations (continued):

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

	2013	2012
Discount rates	4.00 %	3.40 %
Expected future inflation rates	2.50 %	2.50 %
Expected wage and salary increases	2.59 to 4.63 %	2.58 to 4.63 %

### Municipal Pension Plan

The District and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusted 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 179,000 active members and approximately 71,000 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, 2012 indicated an unfunded liability of \$1,370 million for basic pension benefits. The next valuation will be as at December 31, 2015, with results available later in 2016. The actuary does not attribute portions of the surplus to individual employers. The District paid \$1,537,497 (2012 - \$1,495,870) for employer contributions and District employees paid \$1,238,353 (2012 - \$1,153,600) for employee contributions to the plan in fiscal 2013.

### GVLRA – CUPE Long-Term Disability Trust

The Trust was established January 1, 1987 as a result of negotiations between the Greater Victoria Labour Relations Association representing a number of employers and the Canadian Union of Public Employees representing a number of CUPE locals. The Trust's sole purpose is to provide a long-term disability income benefit plan. Employers and employees each contribute equal amounts into the Trust. The total plan provision for approved and unreported claims was actuarially determined at December 31, 2012. At December 31, 2013, the total plan provision for approved and unreported claims was \$18,615,400 with a net deficit of \$5,484,632. The actuary does not attribute portions of the unfunded liability to individual employers. The District paid \$92,483 (2012 - \$54,122) for employer contributions and District employees paid \$95,015 (2012 - \$60,158) for employee contributions to the plan in fiscal 2013.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

## 5. Long-term debt:

	2013	2012
Debenture debt - MFA Issue 80 payable at \$142,594 annually; fixed interest payments 4.775% paid semi-annually (\$112,571). Final payment October 3, 2023.	\$ 2,921,470	\$ 3,142,681
Capital leases - MFA, payable monthly; payments include interest from 1.25% to 2%; terms to 2018.	299,057	171,392
<b>Total General Capital Fund debt</b>	<b>\$ 3,220,527</b>	<b>\$ 3,314,073</b>

### (a) Debenture debt:

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

The District issues its debentures through the MFA. Debentures are issued on a sinking fund basis, where the MFA invests the District'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. The gross value of debenture debt at December 31, 2013 is \$4,715,000.

### (b) The aggregate amount of payments required on the District's long-term debt during each of the next five years is as follows:

	Minimum lease payments	Estimated sinking fund payments	Total
2014	\$ 104,342	\$ 192,594	\$ 296,936
2015	93,496	192,594	286,090
2016	77,057	192,594	269,651
2017	22,207	192,594	214,801
2018	1,955	192,594	194,549
	<b>\$ 299,057</b>	<b>\$ 962,970</b>	<b>\$ 1,262,027</b>

### (c) Total interest expense on long-term debt for the year ending December 31, 2013 amounted to \$200,158 (2012 - \$230,129).

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

## 6. Tangible capital assets:

Cost	Balance December 31, 2012	Additions	Disposals/ Transfers	Balance December 31, 2013
Land	\$ 2,852,877	\$ -	\$ -	\$ 2,852,877
Land improvements	748,313	62,086	-	810,399
Building and building improvements	22,126,253	998,762	(385,671)	22,739,344
Machinery and equipment	2,268,070	368,730	(124,812)	2,511,988
IT equipment	662,997	248,903	(157,090)	754,810
Vehicles	5,272,949	274,322	(136,887)	5,410,384
Roads, drains, sewer and water	51,132,702	1,615,768	(54,815)	52,693,655
Assets under construction	460,787	80,450	(79,096)	462,141
<b>Total</b>	<b>\$ 85,524,948</b>	<b>\$ 3,649,021</b>	<b>\$ (938,371)</b>	<b>\$ 88,235,598</b>

Accumulated amortization	Balance December 31, 2012	Disposals	Amortization expense	Balance December 31, 2013
Land improvements	\$ 109,985	\$ -	\$ 30,030	\$ 140,015
Building and building improvements	7,037,562	(179,980)	396,554	7,254,136
Machinery and equipment	1,344,458	(111,358)	158,445	1,391,545
IT equipment	433,317	(145,574)	124,220	411,963
Vehicles	2,199,218	(103,255)	289,176	2,385,139
Roads, drains, sewer and water	24,852,117	(50,096)	806,775	25,608,796
<b>Total</b>	<b>\$ 35,976,657</b>	<b>\$ (590,263)</b>	<b>\$ 1,805,200</b>	<b>\$ 37,191,594</b>

Net book value	December 31, 2012	December 31, 2013
Land	\$ 2,852,877	\$ 2,852,877
Land improvements	638,328	670,384
Building and building improvements	15,088,691	15,485,208
Machinery and equipment	923,612	1,120,443
IT equipment	229,680	342,847
Vehicles	3,073,731	3,025,245
Roads, drains, sewer and water	26,280,585	27,084,859
Assets under construction	460,787	462,141
<b>Total</b>	<b>\$ 49,548,291</b>	<b>\$ 51,044,004</b>

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 6. Tangible capital assets (continued):

### (a) Assets under construction

Assets under construction having a value of \$462,141 (2012 - \$460,787) have not been amortized. Amortization of these assets will commence when the asset is available for service.

### (b) Contributed tangible capital assets

There were no contributed assets recognized during 2013 or 2012.

### (c) Tangible capital assets disclosed at nominal values

Where an estimate of fair value could not be made, tangible capital assets are recognized at a nominal value. Land is the only category where nominal values have been assigned.

### (d) Works of art and historical treasures

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

### (e) Write-down of tangible capital assets

The write-down of tangible capital assets during the year was \$nil (2012 - \$nil).

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

---

## 7. Accumulated surplus:

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

	2013	2012
<b>Surplus:</b>		
Equity in tangible capital assets	\$ 47,823,477	\$ 46,234,218
Operating Fund	3,558,948	4,267,787
Total surplus	51,382,425	50,502,005
<b>Reserve Funds:</b>		
Village Parking	875,209	863,838
Fire Equipment	637,428	540,240
Land Sale	1,752,651	1,753,387
Machinery and Equipment	1,717,066	1,539,294
Heritage	2,161,709	2,156,542
Tax Sale Property	1,744	1,735
Parks Acquisition	264,330	263,019
Capital Works	12,368,190	11,700,030
Alternative Transportation Infrastructure	15,474	15,369
Total reserve funds	19,793,801	18,833,454
	\$ 71,176,226	\$ 69,335,459

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# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

## 8. Taxation:

As well as taxes for its own purposes, the District is required to collect taxes on behalf of, and transfer these amounts to, the government agencies noted below. Taxes levied over or under the amounts requisitioned are recorded as accounts payable or receivable.

	2013	2012
Taxes		
Property tax	\$ 35,757,509	\$ 34,139,726
Payments in lieu of taxes	172,091	162,239
Special assessments and local improvements	242,223	235,995
1% Utility tax	144,534	118,477
Waste disposal fees	1,224,803	1,217,729
Penalties and interest	122,020	126,037
	<u>37,663,180</u>	<u>36,000,203</u>
Less taxes levied on behalf of:		
Provincial government - school taxes	9,779,253	9,493,062
Capital Regional District	2,636,778	2,578,014
Telus (CREST) - CRD	73,180	73,082
Provincial Government - Non-residential school	1,177,403	1,121,664
Capital Regional Hospital District	1,794,658	1,711,415
Municipal Finance Authority	1,197	1,183
BC Assessment Authority	372,423	361,849
BC Transit Authority	1,564,986	1,377,742
Business Improvement Area	75,997	69,997
	<u>17,475,875</u>	<u>16,788,008</u>
Net taxes available for municipal purposes	<u>\$ 20,187,305</u>	<u>\$ 19,212,195</u>

## 9. Commitments and contingent liabilities:

In the normal course of business, the District enters into commitments for both capital and operational expenses. These commitments have been budgeted for within the appropriate annual financial plan and have been approved by Council.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 9. Commitments and contingent liabilities (continued):

### (a) MFA debt reserve fund deposits:

Under borrowing arrangements with the MFA, the District is required to lodge security by means of demand notes and interest-bearing cash deposits based on the amount of the borrowing. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the MFA as a debt reserve fund. These deposits are included in the District's financial assets as cash and are held by the MFA as security against the possibility of debt repayment default. If the debt is repaid without default, the deposits are refunded to the District. At December 31, 2013 there were contingent demand notes of \$136,718 (2012 - \$136,718) which are not included in the financial statements of the District.

### (b) Capital Regional District (CRD) debt, under the provision of the Local Government Act, is a direct, joint and several liability of the CRD and each member municipality within the CRD, including the District.

### (c) The District is a shareholder and member of the Capital Regional Emergency Service Telecommunications (CREST) Incorporated whose services provide 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.

### (d) The District is a defendant in various lawsuits and historical circumstances may result in additional legal claims. The District records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. Other claims will be recorded when a liability is likely and determinable.

The District is self-insured for general liability claims through membership in the Municipal Insurance Association of British Columbia, a reciprocal insurance exchange. Under this program, member municipalities jointly share claims against any member in excess of their deductible. Should the Association pay out claims in excess of premiums received, it is possible that the District, along with the other participants, would be required to contribute towards the deficit. The District's deductible is \$10,000.



# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

---

## 9. Commitments and contingent liabilities (continued):

- (e) During 2008 the Province of BC gave its share (50%) of the heritage property known as Tod House to the District. The value of this transaction has been recorded as \$395,000. Concurrently the Province registered a "Possibility of Reverter" against the property. This states that the Province has granted its interest to the District "for so long as the land is used for the specific purpose of managing the Tod House Heritage Site". Previous correspondence with the Province suggests that if the property use is changed the District will pay to the Province 50% of the market value of the property at the time that its use changed. The District has no plans to change the use of Tod House.
- (f) During 2010 the District, under the approval of Council, committed to provide funding of \$1,000,000 towards the construction of a new Community Theatre and art facilities for the new Oak Bay High School. A payment of \$500,000 was made in the current year, with the second to be paid upon completion of the project. The remaining contribution will be recognized in the financial statements when the recipient has met the eligibility criteria for the funding.

## 10. Trust funds:

Trust funds administered by the District have not been included in the statement of financial position nor have their operations been included in the statement of operations.

	Heritage House Trust	Legacy Trusts	2013	2012
Financial assets:				
Cash	\$ 524	\$ 940	\$ 1,464	\$ 1,778
Investments	234,167	374,022	608,189	573,217
Due from operating fund	14,074	-	14,074	28,176
	<u>\$ 248,765</u>	<u>\$ 374,962</u>	<u>\$ 623,727</u>	<u>\$ 603,171</u>

Since the use of Trust Funds is restricted, their assets and liabilities are not recorded in the financial statements.

The District has received bequests that are to be used for various purposes. These are maintained in the Legacy Trusts, with authorized expenditures being funded from it, and earnings on investments being added to the Trust.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

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## 11. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2013 operating and capital financial plans approved by Council on May 13, 2013 and subsequent amendments. Amortization was not contemplated on development of the financial plan and, as such, has not been included. The following reconciles the approved financial plan to the financial plan figures reported in these financial statements.

	Financial plan amount
Revenues:	
Financial plan	\$ 39,196,666
Less:	
Transfers from own funds	(2,032,456)
Financial plan amendments	(2,365,578)
Total revenue	34,798,632
Expenses:	
Financial plan	39,196,666
Less:	
Capital expenses	(5,537,322)
Transfer to other funds	(1,249,259)
Debt principal payments	(227,649)
Financial plan amendments	(913,540)
Total expenses	31,268,896
Annual surplus	\$ 3,529,736

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

## 12. Segmented information:

The Corporation of the District of Oak Bay is a diversified municipal organization that provides a wide range of services to its citizens. For management reporting purposes, the District's operations and activities are organized and reported by service areas. Municipal services are provided by departments and their activities are reported in these service areas. Service areas that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

**DRAFT**

Year ended December 31, 2013

---

## 12. Segmented information (continued):

(i) General Government:

The departments within General Government are Corporate Administration, Building and Planning, Finance, and Information Technology. These departments are responsible for adopting bylaws, adopting administrative policy, levying taxes, ensuring effective financial management, monitoring performance and ensuring that high quality municipal service standards are met.

(ii) Protective Services:

Protective Services is made up of Police, Fire, Building and Planning and Animal Control. The Police Department ensures the safety of the lives and property of Oak Bay citizens through the enforcement of municipal bylaws and criminal law, the maintenance of law and order, and the prevention of crime. The Fire Department is responsible for providing critical, life-saving services in preventing or minimizing the loss of life and property from fire emergencies. The Fire Department also coordinates the District's emergency program. The Building and Planning department provides a full range of building services related to permits and current regulatory issues and through its Bylaw Enforcement division promotes, facilitates and enforces general compliance with bylaws. Animal Control services enforce the animal control bylaws and operate the pound and adoption centre for animals.

(iii) Transportation Services:

Transportation Services is responsible for the construction and maintenance of roads and sidewalks throughout Oak Bay. Other duties include street cleaning, leaf pickup, snow removal and street lighting. This department is also responsible for the construction and maintenance of the storm drain collection systems.

(iv) Environmental Health Services:

The Environmental Health Services is responsible for the collection and disposal of household garbage.

(v) Recreation Services:

Recreation Services is responsible for providing, facilitating the development of, and maintaining the high quality of parks, recreation facilities, and cultural services.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

***DRAFT***

Year ended December 31, 2013

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## **12. Segmented information (continued):**

### (vi) Water Utilities and Sewer Collection System:

The Water Utilities and Sewer Collection System Departments operate and distribute the water and sewer networks. They are responsible for the construction and maintenance of the water and sewer distribution systems, including mains and pump stations.

Certain allocation methodologies have been employed in the preparation of the segmented financial information. Taxation and payments-in-lieu of taxes are apportioned to General Government, Protective, Transportation, and Recreation Services based on current year expenditures. The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in note 1.

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

## 12. Segmented information (continued):

2013	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System		Total
							Collection System	Total	
<b>Revenue:</b>									
Taxation	\$ 2,516,669	\$ 8,544,738	\$ 3,198,727	\$ 1,224,803	\$ 4,702,368	\$ -	\$ -	\$ -	\$ 20,187,305
Sales and service	80,045	2,785	-	9,570	6,717,008	3,111,159	1,440,124	-	11,360,691
Government transfers	579,297	180,670	-	-	-	-	-	-	759,967
Other revenues	753,687	573,340	32,906	-	-	-	-	-	1,359,933
Investment income	370,581	-	-	-	-	-	-	-	370,581
<b>Total revenue</b>	<b>4,300,279</b>	<b>9,301,533</b>	<b>3,231,633</b>	<b>1,234,373</b>	<b>11,419,376</b>	<b>3,111,159</b>	<b>1,440,124</b>	<b>-</b>	<b>34,038,477</b>
<b>Expenses:</b>									
Salaries and wages	1,598,947	7,741,915	1,736,012	321,513	7,525,330	540,742	339,688	-	19,804,147
Materials, supplies and services	2,470,691	1,004,361	784,148	551,242	2,932,853	1,961,295	685,937	-	10,390,527
Interest and other	-	-	-	-	197,836	-	-	-	197,836
Amortization	107,685	137,784	555,192	160,090	533,612	218,314	92,523	-	1,805,200
<b>Total expenses</b>	<b>4,177,323</b>	<b>8,884,060</b>	<b>3,075,352</b>	<b>1,032,845</b>	<b>11,189,631</b>	<b>2,720,351</b>	<b>1,118,148</b>	<b>-</b>	<b>32,197,710</b>
<b>Annual surplus</b>	<b>\$ 122,956</b>	<b>\$ 417,473</b>	<b>\$ 156,281</b>	<b>\$ 201,528</b>	<b>\$ 229,745</b>	<b>\$ 390,808</b>	<b>\$ 321,976</b>	<b>\$ -</b>	<b>\$ 1,840,767</b>

# THE CORPORATION OF THE DISTRICT OF OAK BAY

Notes to Financial Statements (continued)

Year ended December 31, 2013

## 12. Segmented information (continued):

2012	General Government	Protective Services	Transportation Services	Environmental Health	Recreation Services	Water Utility	Sewer Collection System		Total
							Collection	System	
<b>Revenue:</b>									
Taxation	\$ 2,057,242	\$ 7,939,849	\$ 3,271,208	\$ 1,217,729	\$ 4,726,167	\$ -	\$ -	\$ -	\$ 19,212,195
Sales and service	58,883	-	-	9,869	6,486,527	3,055,399	1,012,020	-	10,622,698
Government transfers	369,924	270,500	-	-	-	-	-	-	640,424
Other revenues	776,982	621,211	43,185	-	-	-	-	-	1,441,378
Investment income	343,974	-	-	-	-	-	-	-	343,974
<b>Total revenue</b>	<b>3,607,005</b>	<b>8,831,560</b>	<b>3,314,393</b>	<b>1,227,598</b>	<b>11,212,694</b>	<b>3,055,399</b>	<b>1,012,020</b>	<b>-</b>	<b>32,260,669</b>
<b>Expenses:</b>									
Salaries and wages	1,142,314	7,125,005	1,675,492	314,518	7,392,681	531,178	360,618	-	18,541,806
Materials, supplies and services	2,211,253	908,884	832,928	557,553	2,690,203	2,009,807	294,107	-	9,504,735
Interest and other	-	-	-	-	226,941	-	-	-	226,941
Amortization	81,526	134,177	532,614	151,736	507,927	210,104	92,155	-	1,710,239
<b>Total expenses</b>	<b>3,435,093</b>	<b>8,168,066</b>	<b>3,041,034</b>	<b>1,023,807</b>	<b>10,817,752</b>	<b>2,751,089</b>	<b>746,880</b>	<b>-</b>	<b>29,983,721</b>
<b>Annual surplus</b>	<b>\$ 171,912</b>	<b>\$ 663,494</b>	<b>\$ 273,359</b>	<b>\$ 203,791</b>	<b>\$ 394,942</b>	<b>\$ 304,310</b>	<b>\$ 265,140</b>	<b>\$ -</b>	<b>\$ 2,276,948</b>



**THE CORPORATION OF THE DISTRICT  
OF OAK BAY**

Audit Findings Report

For the year ended December 31, 2013

## Contents

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## I. Audit findings

### **Status**

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- completing our discussions with Council
- obtaining evidence of Council's approval of the financial statements
- completion of subsequent event review procedures
- receipt of signed management representation letter

Please refer to the Appendices for our draft audit report. We will update you on any significant matters arising from the completion of the audit, including completion of the above procedures. Our audit report will be dated upon approval of the financial statements.

### **Audit scope**

#### ***Our responsibilities***

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter included in the appendices to this report.

#### ***Materiality***

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements;
- For the current year, materiality of \$800,000 has been determined.

#### ***Significant financial reporting risks***

There were no significant financial reporting risks identified during our audit planning.



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## Significant audit, accounting and reporting matters

### *Significant audit and reporting matters and matters related to management's judgment and estimates*

<b>Estimate for Firefighters' retroactive pay</b>
<ul style="list-style-type: none"><li>The collective agreement between the District and the Firefighter's union expired on December 31, 2009. A contract has been settled for the years ended 2010 and 2011. The related retroactive pay required accrual at December 31, 2013. No new agreement has been settled for the years ended 2012 and 2013. As a result, the Firefighters continue to be paid at the same rates since 2009. When the agreement is settled, any increases to wages will have to be retroactively paid for services rendered in the related years.</li></ul>
<ul style="list-style-type: none"><li>As the benefit of these services was realized by the District in past years, a liability is to be accrued for the estimated amount of the settlement.</li></ul>
<ul style="list-style-type: none"><li>Management has estimated the settlement based on their understanding of similar settlements of collective bargaining agreements in other municipalities across the province.</li></ul>
<b>KPMG comments</b>
<ul style="list-style-type: none"><li>KPMG reviewed the assumptions and method in which the accrual calculation was made and we agree with Management's treatment of this transaction as described above.</li></ul>
<b>Misstatements</b>
<ul style="list-style-type: none"><li>No misstatements were noted.</li></ul>
<b>Significant deficiencies</b>
<ul style="list-style-type: none"><li>No significant deficiencies were noted.</li></ul>



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## Other matters

<b>Summary of audit procedures</b>
<ul style="list-style-type: none"><li>• Our audit focused on the areas identified during our audit planning as listed below:<ul style="list-style-type: none"><li>- Cash and investments balances were confirmed with the respective financial institutions.</li><li>- Taxation revenues, including those collected on behalf of other governments, were tested by way of substantive analytical procedures. An expectation was prepared based on the approved property tax rates and the assessed property values.</li><li>- Government transfer revenues and deferred revenues were substantively tested by obtaining grant terms and conditions and testing to determine if the criteria in relation to the grants had been met.</li><li>- Salaries and wage expense were tested by substantive analytical procedures.</li><li>- Tangible capital asset additions and amortization were substantively tested.</li><li>- Disclosures were reviewed for appropriateness of presentation and disclosure under Public sector accounting standards.</li></ul></li></ul>
<b>KPMG comments</b>
<ul style="list-style-type: none"><li>• No changes were made from the audit planning strategy in conducting the 2013 audit.</li></ul>
<b>Misstatements</b>
<ul style="list-style-type: none"><li>• No misstatements were noted.</li></ul>
<b>Significant deficiencies</b>
<ul style="list-style-type: none"><li>• No significant deficiencies were noted.</li></ul>



## **Significant qualitative aspects of accounting practices**

### ***Significant accounting policies***

- Significant accounting policies included in the financial statements are consistent from a year-to-year basis and are as disclosed in the notes to the financial statements with the exception of the following:
- The District adopted Public Sector Accounting Standard PS 3510, Tax Revenue effective January 1, 2013. This standard was adopted on a prospective basis. Under PS 3510, municipalities recognize property tax revenue using the approved mill rate and the anticipated assessment. The standard requires that property tax revenue be reported net of tax concessions. Tax transfers are reported as an expense and taxes levied on behalf of others in a flow through arrangement are not reported in the statement of operations. There were no adjustments as a result of the adoption of this standard.
- Effective January 1, 2013, the District applied PS3410 Government Transfers” under Public Sector Accounting Standards. The new section requires that in order for unspent government grants received to be deferred into future periods, the criteria of a liability must be met such that the amounts may have to be repaid to the transferring government if the terms of the grant are not met.

The new standard is applied on a prospective basis. There was no change in the historical treatment of revenues as a result of the application of the new standard.

In future years, a more stringent set of standards will be applicable when assessing the deferral of revenue and ability for contributions to be recorded as a liability until such time as related expenditures are incurred. Careful analysis should be undertaken to determine if the amounts meet the eligibility for deferral under the new accounting standard, as significant judgment is required in applying the new accounting criteria.

### ***Significant accounting estimates***

- Management's process for identification and making accounting estimates included in the financial statements are consistent with prior year.

### ***Significant disclosures***

- Significant disclosures included in the financial statements are consistent with prior year.

## **Misstatements**

### ***Identification of misstatements***

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements, including disclosures



- corrected misstatements, including disclosures

**Uncorrected misstatements**

Professional standards require that we request of management and those charged with governance that all uncorrected misstatements be corrected. We have made this request of management. However, management has decided not to correct these misstatements and represented to us that the uncorrected misstatements individually and in the aggregate are, in their judgment, not material to the financial statements.

We concur with management's representation. Accordingly, the uncorrected misstatements have no effect on our audit report

Refer to Management's representation in the Appendices related to one minor uncorrected audit misstatement related to an accrual for litigation.

**Corrected misstatements**

Refer to Management's representation in the Appendices for all corrected audit misstatements.

We highlight the following corrected adjustments:

Description	Income effect	Financial position		
	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
Reclassify payroll payment made on December 31, 2013	-	(299,160) 78,393	(220,767)	-
Reverse accrual for facility review contract costs for work not yet started in 2013	237,996	-	(237,996)	-
Total	\$237,996	(\$220,767)	(\$458,763)	-



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## II. Appendices

- A. Independence letter
- B. Management representation letter
- C. Engagement letter
- D. PSAB current developments



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To the Mayor and Management of the Corporation of the District of Oak Bay

Professional standards specify that we communicate to you in writing all relationships between the District (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
  - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
  - economic dependence on a client

### **Provision of services**

There are no other professional services rendered by us to the Corporation of the District of Oak Bay (and its related entities) from January 01, 2013 up to the date of our auditors' report.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

### **Other relationships**

We are aware of the following other relationships between our firm and the District (and its related entities) that have previously been communicated to you that may continue to reasonably be thought to bear on our independence from January 1, 2013 up to the date of our auditors' report:

<b>Relationships</b>	<b>Safeguards</b>
Long association of senior personnel with an assurance client	Involvement of a new audit manager.

**Confirmation of independence**

We confirm that we are independent with respect to the District (and its related entities) within the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation from January 1, 2013 up to the date of our auditors' report.

**Other matters**

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

Handwritten signature of KPMG LLP in black ink, with a horizontal line underneath.

Chartered Accountants



# Management representation letter

Prior to release of the auditors' report, the Treasurer and Deputy Treasurer will be providing KPMG with a letter confirming their conclusion that the accounts are fairly presented, complete and accurately reported in the financial statements. A copy of this letter is included in the following pages.

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of The Corporation of the District of Oak Bay ("the Entity") as at and for the period ended December 31, 2013.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## **General:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 9, 2010, for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
  - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

## **Internal control over financial reporting:**

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

## **Fraud and non-compliance with laws and regulations:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when

- preparing financial statements
- e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

**Subsequent events:**

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**Related parties:**

- 5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**Estimates:**

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**Misstatements:**

- 7) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- 8) We approve the corrected misstatements identified by you during the audit described in Attachment II.

**Other:**

- 9) We have complied with subsection 2 and 3 of section 124 of Part 8 of the School Act
- 10) The District's Home Owner Grant Certificate has been prepared and presents fairly the Home Owner Grant information of the District in accordance with the provisions of Section 12 of the Home Owner Grant Act.
- 11) The Hotel Room Tax Statement of Funds Collected and Expended for the year ended December 31, 2013 has been prepared in accordance with the Hotel Room Tax Act Additional Tax Regulation for the District of Oak Bay dated July 28, 1989.

Yours very truly,

THE CORPORATION OF THE DISTRICT OF OAK BAY

---

By: Patricia Walker, Treasurer

---

By: Fernando Pimentel, Deputy Treasurer/IT Manager

# Attachment I – Definitions

## **Materiality**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

## **Fraud & error**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

## **Related parties**

In accordance with Canadian accounting standards for the public sector (PSAB) *related party* is defined as:

- one party that has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence.

In accordance with Canadian accounting standards for the public sector (PSAB) a related party transaction is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged.

## Attachment II

### Summary of audit misstatements

#### Uncorrected misstatements

	Income effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
To accrue a liability for estimated future legal claims/invoices per MIA report.	(63,600)	-	63,600	-
<b>Total uncorrected misstatements</b>	<b>(63,600)</b>	<b>-</b>	<b>63,600</b>	<b>-</b>

#### Corrected misstatements

	Income effect	Financial position		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Equity (Decrease) Increase
To reclassify Dec 31, 2013 payment of payroll from cash to prepaid expenses and accounts payable	-	(299,160) 78,393	(220,767)	-
To remove amounts included in accounts payable for a future consulting project as the benefit of this expense has not yet been realized by the District.	237,996	-	(237,996)	-
<b>Total corrected misstatements</b>	<b>\$237,996</b>	<b>(\$220,767)</b>	<b>(\$458,763)</b>	<b>-</b>

#### Corrected misstatements in presentation and disclosure

Minor changes to presentation and disclosure were recommended and accepted.

# PSAB current developments

## **Liability for Contaminated Sites**

- New Accounting Standard, Liability for Contaminated Sites PS3260 has been approved by the PSAB and is effective for years commencing on or after April 1, 2014. Early adoption is encouraged.
- Governments will be required to recognize a liability for contaminated sites when the government is responsible for, or accepts responsibility for, the contamination, and the contamination exceeds existing environmental standards. The amount recorded as a liability must be reasonably estimable and would include costs directly related to the remediation activities and post-remediation costs that are an integral part of the remediation strategy. Costs related to asset purchases to be used in remediation would be included in the liability to the extent that the assets have no alternative use.

## **Financial Instruments and Foreign Currency Translation**

- New Accounting Standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601 have been approved by the PSAB and are effective for years commencing on or after April 1, 2016 for governments. Early adoption is permitted.
- Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.
- Hedge accounting is not permitted.
- A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.

## **Revenue**

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and comments are currently under deliberation.
- An exposure draft is under development and expected for release in the 3<sup>rd</sup> quarter of 2014. Adoption of these principles would result in a need to assess current accounting policies.
- In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

## **Related Party Transactions**

- The PSA Handbook currently has no specific accounting standards relating to Related Party Transactions. PSAB issued an exposure draft for a new standard on related party transactions; responses are currently under review and a revised draft is expected in spring 2014.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
  - the terms and conditions underlying the transactions;
  - the financial significance of the transactions;
  - the relevance of the information; and
  - the need for the information to enable users' understanding of the financial statements and for making comparisons.
- A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
- A reporting entity may either:
  - disclose information about contributed goods and services; or
  - recognize a revenue and expense if those goods and services would otherwise have been purchased.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

## **Assets**

- PSAB issued a Statement of Principles that proposes additional guidance on the definition of assets, disclosure requirements for assets and definitions of and standards on disclosure requirements for contingent assets and contractual rights.
- An exposure draft is under development and expected for release in the 3<sup>rd</sup> quarter of 2014. Adoption of these principles would result in a need to assess current accounting policies.

## **Asset Retirement Obligations**

- A Statement of Principles is under development to address the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of long-lived tangible capital assets currently in productive use. The Statement of Principles is expected for release in the 2<sup>nd</sup> quarter of 2014.
- Recognition and measurement of the liability will be a major issue as will be accounting for the related expense.



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## KPMG LLP Chartered Accountants

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2014-140

MEMORANDUM

**TO:** Mayor and Council  
**FROM:** Municipal Treasurer  
**DATE:** April 25, 2014  
**RE:** **Approval of Grants**

---

**BACKGROUND:**

During the April 16, 2014 Estimates Committee meeting the grants to be given during 2014 were discussed, but not specifically approved.

**DISCUSSION:**

It is necessary for Council to approve the grants that are to be given during 2014. Attached is an updated summary of the grants, including the adjustments that were made during the Estimates Committee meeting.

**OPTIONS:**

Council can approve the grants as listed on the attached summary, or it can make changes and then approve the revised list of grants.

**FINANCIAL IMPACT:**

The total of the various grants is \$180,545.

**RECOMMENDATION:**

That the attached Summary of Grants, which is included in the Financial Plan Bylaw, 2014, be approved.



Patricia A. Walker  
Municipal Treasurer

I concur with the recommendation of the Municipal Treasurer



---

Helen M. Koning  
Chief Administrative Officer



## 2014 BUDGET

### SUMMARY OF GRANTS

#### General Government

BIA - Oak Bay Village Improvement	\$	64,000	
City of Victoria re Multiplex (Yr 10 of 10)	\$	17,798	
Community Association of Oak Bay	\$	1,500	
Heritage Foundation	\$	3,000	
Heritage Foundation	\$	736	
Halloween - Kiwanis	\$	500	
Oak Bay High Scholarship	\$	1,500	
Oak Bay High purchase of art	\$	300	
Vancouver Island South Film & Media Comm.	\$	7,500	
Royal and MacPherson Theatres Society	\$	2,500	
Greater Victoria Developments Agency	\$	1,000	
SeaChange Marine Conservation Society	\$	5,000	
Chinese Consolidated Benevolent Fund	\$	2,500	
Oak Bay United Church re. parking availability	\$	3,500	
The Greater Victoria Bike to Work Society	\$	2,000	
Friends of Uplands Park	\$	2,000	
Restorative Justice Oak Bay	\$	2,500	
CRD re part-time Bowker Cr. Coordinator	\$	12,944	
City of Victoria - Canada Day celebrations	\$	1,500	
Royal Canadian Legion	\$	250	
One-time/special project requests	\$	3,972	
Employees	\$	<u>550</u>	\$ 137,050

#### Social Services

St John Ambulance	\$	600	
NEED2	\$	1,000	
Volunteer Victoria	\$	1,400	
Community Council	\$	500	
Integrated recreation	\$	<u>6,495</u>	\$ 9,995

#### Other

Oak Bay Volunteers		\$	25,000
Maritime Museum		\$	1,500
Oak Bay Tea Party Society		\$	<u>7,000</u>
		\$	<u><u>180,545</u></u>

2014-143

MEMORANDUM

**TO:** Mayor and Council

**FROM:** Director of Building and Planning

**DATE:** May 7, 2014

**RE:** Property protected pursuant to Section 962 of the Local Government Act  
2090 Byron Street  
Lot 22, Block 3, Section 69, Victoria District, Plan 298

---

**BACKGROUND:**

At the March 24, 2014 Council meeting, Council ordered that temporary protection be placed on the property located at 2090 Byron Street for a period of not longer than 60 days. This property was then referred to the Heritage Commission for its assessment and recommendation with respect to the proposed deck addition.

**DISCUSSION:**

The property and plans were considered by Heritage Commission on April 8, 2014. The minutes of the Heritage Commission are on this Council meeting agenda. The Commission did not have any concerns with the requested alterations to the building as shown on the attached plans.

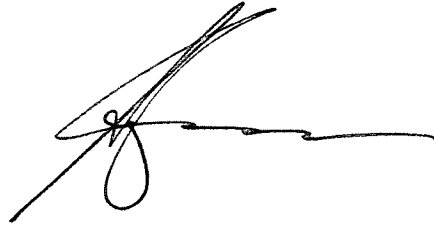
**OPTIONS:**

1. That the 60 day temporary protection order made March 24, 2014 pursuant to *Section 962* of the *Local Government Act*, for 2090 Byron Street, be lifted. This would result in staff issuing a building permit for the alterations.
2. That staff be directed to prepare the necessary Heritage Designation Bylaw to protect the property at 2090 Byron Street.
3. That this report be received for information. In this case the temporary protection order would expire after the 60 day period and staff would issue a building permit at that time.

**RECOMMENDATION(S):**

That the 60 day temporary protection order made March 24, 2014 pursuant to *Section 962* of the *Local Government Act*, for 2090 Byron Street, be lifted.

Respectfully Submitted,

A handwritten signature in black ink, consisting of a large, sweeping initial 'R' followed by a horizontal line and a small loop at the end.

---

Roy Thomassen  
Director of Building and Planning

I concur with the recommendation of the Director of Building and Planning.

A handwritten signature in black ink, consisting of the initials 'HK' in a stylized, cursive font.

---

Helen Koning  
Chief Administrative Officer

MEMORANDUM

2014-145

**TO:** Mayor and Council  
**FROM:** Director of Engineering Services  
**DATE:** April 24, 2014  
**RE:** Uplands Field Survey Request for Proposal (RFP)

---

**BACKGROUND:**

The Uplands Sewer and Storm Drain Separation process is at a stage where additional survey information is required to enable the development of preliminary design options that can be presented to Council for consideration. The purpose of this RFP is to obtain costs from qualified surveyors to undertake a detailed survey of the Uplands area properties and surrounding streetscape.

**DISCUSSION:**

Kerr Wood Leidal (KWL) was engaged by The District of Oak Bay to conduct the RFP process, including assessing the proposals for completeness, qualifications, corporate strength, and cost.

The memo with KWL's assessment and recommendation is included in this memo as 'Attachment # 1'

**OPTIONS:**

That:

- 1) The contract be awarded to Polaris Land Surveying [ for option B] for \$52,500;
- 2) The contract be awarded to another respondent;
- 3) No contract be awarded.

**FINANCIAL IMPACT:**

The cost of the proposed project is included in the Five Year Financial Plan.

**RECOMMENDATION(S):**

That a contract be awarded to Polaris Land Surveying for Option 'B' as layed out in the report Uplands Survey Tender Analysis from KWL dated May 6, 2014 in the amount of \$52,500.00 for the Uplands Field Survey.

Respectfully Submitted,



---

D. Marshall B.Sc., A.Sc.T.  
Director of Engineering Services

Source of Funds/I concur with the recommendation of the Director of Engineering Services.



---

Patricia Walker  
Municipal Treasurer

I concur with the recommendation of the Director of Engineering Services.



---

Helen Koning  
Chief Administrative Officer



**KERR WOOD LEIDAL**  
consulting engineers

Vancouver Island  
201 - 3045 Douglas Street  
Victoria, BC V8T 4N2  
T 250 595 4223  
F 250 595 4224

May 6, 2014

Dave Marshall, B.Sc., A.Sc.T  
Director of Engineering Services  
Corporation of the District of Oak Bay  
2167 Oak Bay Avenue  
Victoria, BC V8R 1G2

Dear Mr. Marshall:

**RE: CORPORATION OF THE DISTRICT OF OAK BAY**  
***Uplands Survey Tender Analysis***  
**Our File: 0547.033 – 300**

Request for Proposals for Oak Bays' 'Uplands Sewer Separation Survey Services – Contract OBHM-01 were advertised on BC Bid and the Districts' website and closed on Thursday April 24<sup>th</sup>, 2014.

## Two Alternatives

Proponents were asked to provide methodology and prices for two alternatives as follows:

### Option A

This survey requires that only the front corners and the front door sill of each residence be surveyed. The Engineering Department has created a spreadsheet that will allow for a fast comparison of which houses can be serviced by gravity for different depths of municipal sewer. The spreadsheet was written as a tool to narrow discussion on whether a less expensive, i.e. shallower, sewer was feasible. It is possible to compare relative percentages of cost between different options using this survey but it is NOT possible to put a dollar figure on any option for budgeting. This option will also require that a second survey be conducted prior to feasibility and detailed design.

The current combined system is located mostly in the road right of way but also in rear and side lot rights of way. It is hoped that work in these areas can be avoided. It is also hoped that the new sewer can be installed at a shallower depth than much of the current system. These two concepts could reduce the cost of the project significantly. Option A can be used with the spreadsheet mentioned above as an intermediate tool to check some of these concepts, however, a true feasibility and an actual cost estimate will require more detail that this option will give.

### Option B

Includes the same work as outlined in A above but includes detailed survey of the right of way on the streets. This survey work would make depth comparisons more accurate and allow for work to obtain proper cost estimates. This survey will not only make any feasibility work more accurate but is also required for detailed design. Locations of trees, driveways etc along with accurate depths of sewer inverts will also be included.

In summary the benefits of each option are as follows:



#### Option A

- Less expensive for this fiscal year.

#### Option B

- Lowest capital cost for the project (likely 25% less for total survey costs)
- Better information for planning work reducing the chance of poor planning..
- Capital cost estimates are feasible – they are not for Option A
- Reduces overall schedule by 3 months
- One survey period within the neighbourhood instead of two.
- Better quality information for any preliminary analysis.
- Cost estimating is possible for alternatives for this option. This is not reasonable under Option A as described below.

Cost estimates will require that information on existing services, trees, electrical services and amounts of asphalt to be removed for laterals etc is included. Option A provides only a distance between the house and the main and two depths. A cost estimate based on this alone would be considered extremely preliminary. Whereas a survey with features will allow for a preliminary drawing and profile that proves feasibility will allow for a reasonable cost estimate.

### Submissions Received:

A total of 11 proposals were received and are listed below for both their Part A and Part B prices. All tenders were checked. One was considered non-conforming as it excluded trees from the Part B survey. A second used a technology similar to that of the Google Earth camera car which has some limitations but this was not further analyzed as the tendered prices were not competitive. Proponents were asked to provide information regarding the following:

- Methodology
- Capability
- Fees
- Schedule

KWL considered three (3) proposals worthy of more detailed scrutiny. These included the lowest priced proposal for Part A which was On Point Engineering, and the lowest two bids for Part B. These were Polaris Land Surveying and Richard Wey Surveyors. We interviewed all three parties to clarify any issues that were not clear to us and checked references. Based on this process we consider all three firms to have the expertise to complete the project. A summary of the proposal costs is outlined below.



Proponent's Name	Fees	
	A	B
Polaris Land Surveying	\$25,800.00	\$52,500.00
Richard Wey	\$18,300.00	\$64,580.00
On Point Engineering	\$16,100.00	\$68,980.00
Brad Cunnin Land Surveying Inc.	\$26,200.00	\$79,377.80
Associated	\$28,435.00	\$82,895.40
Westbrook Consulting	\$41,450.00	\$94,580.00
JE Anderson	\$26,520.00	\$96,416.00
Focus	\$63,960.00	\$140,980.00
R.F. Binnie	\$21,018.00	\$150,044.00
Sar Point Engineering	\$52,881.00	\$157,024.00
McElhanney	\$66,955.00	\$185,014.00

## Recommendation

Based on our analysis and the benefits of Alternative B over A we recommend that the contract for the survey of the Uplands Sewer Separation Survey Services (OBHM-01) be awarded to Polaris Land Surveying for \$52,500.00.

If Oak Bay chooses to go ahead with Option A instead then we recommend that this contract be awarded to On Point Engineering for the sum of \$16,100.00

Please note that it is prudent when budgeting for this type of work to carry a contingency of perhaps \$15% for unforeseen circumstances such as homeowners who will not allow access. It is likely that the majority of this contingency would remain untouched but as with all contracts contractual changes to the work would attract extras.

We trust that the above analysis is in order and remain available to answer any questions regarding the above.





May 6, 2014  
Dave Marshall,  
Uplands Survey Tender Analysis

Yours truly,

**KERR WOOD LEIDAL ASSOCIATES LTD.**

A handwritten signature in cursive script that reads 'Rob Warren'.

Rob Warren, P.Eng.  
Sector Leader Community Infrastructure & Development

RW/rw  
Encl.

**KERR WOOD LEIDAL ASSOCIATES LTD.**  
consulting engineers