AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR 2014/15

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Greater Victoria Harbour Authority (GVHA) are the responsibility of GVHA's management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian standards for notfor-profit corporations. A summary of the significant accounting policies is included in Note 1 to the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner. These systems are monitored and evaluated by management.

The Board has appointed an Audit & Finance Committee, comprised of four directors, to review with management and the auditors the annual financial statements, prior to submission to the Board for final approval.

KPMG LLP has been appointed by the GVHA's member agencies as independent auditors to examine and report on the financial statements. Their "Independent Auditors' Report" on page 46 outlines the scope of the audit and expresses an opinion on the financial statements of the GVHA.

Ian Robertson
Chief Executive Officer

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INDEPENDENT AUDITORS' REPORT

To the Members of Greater Victoria Harbour Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Greater Victoria Harbour Authority, which comprise the statement of financial position as at March 31, 2015, the statements of operations, changes in net 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 accounting standards for not-for-profit organizations, 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, the financial statements present fairly, in all material respects, the financial position of the Greater Victoria Harbour Authority as at March 31, 2015, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

August 27, 2015
Victoria, Canada

GREATER VICTORIA HARBOUR AUTHORITY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2015, with comparative information for March 31, 2014.

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,978,961	$ 1,171,354
Guaranteed investment certificates (note 2)	2,871,097	5,837,424
Restricted cash and guaranteed investment certificates (note 3)	1,557,445	142,237
Accounts receivable	401,486	712,969
Prepaid expenses	178,269	213,032
	$ 68,674,440	$ 69,726,484
Investments (note 4)	3,451,391	2,565,761
Long-term receivable (note 5)	121,706	-
Loans receivable from related parties (note 6)	100,000	-
Capital assets (note 7)	58,014,085	59,083,707
	$ 68,674,440	$ 69,726,484
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,456,093	$ 1,547,545
Deferred revenue	146,621	186,887
Current portion of fixed term loan	1,366,449	132,877
	2,969,163	1,867,309
Fixed term loan (note 8)	-	1,237,306
Deferred contributions (note 9)	270,479	278,689
Deferred capital contributions (note 10)	23,267,852	24,265,562
Net assets:		
Invested in capital assets	34,746,233	34,818,145
Internally restricted reserve fund (note 11)	4,868,819	2,565,761
Unrestricted	2,551,894	4,693,712
	42,166,946	42,077,618
	$ 68,674,440	$ 69,726,484

Commitments and contingencies (note 13).

See accompanying notes to financial statements.

Approved by the Board:

Director

Director

GREATER VICTORIA HARBOUR AUTHORITY

STATEMENT OF OPERATIONS

Year ended March 31, 2015 with comparative information for 2014

	Budget	2015	2014
	(note 17)		
Revenues:			
Shipping	$ 5,840,225	$ 5,760,335	$ 5,741,799
Marinas and attractions	1,992,601	2,000,554	2,035,671
Commercial real property	1,858,524	1,858,003	1,713,250
	9,691,350	9,618,892	9,490,720
Cruise sustainability fee (note 12)	918,501	925,749	917,460
Other recovered costs and in-kind sponsorship	790,044	552,368	323,048
	11,399,895	11,097,009	10,731,228
Expenses:			
General operating expenses	3,681,258	3,766,647	3,503,608
Repairs and maintenance	1,679,525	1,628,806	1,518,480
Insurance	311,758	338,293	325,266
Property taxes	1,073,814	914,056	1,040,796
Administrative	3,651,910	3,808,370	3,531,565
Amortization of capital assets	2,232,880	2,116,788	1,938,856
	12,631,145	12,572,960	11,858,571
Deficiency of revenues over expenses before the following	**(1,231,250)**	**(1,475,951)**	**(1,127,343)**
Deferred non-capital contributions recognized as revenue (note 9)	148,227	8,210	683,547
Deferred capital contributions recognized as revenue (note 10)	997,710	997,710	989,954
Gain on disposal of capital assets	-	143,269	43,507
Excess (deficiency) of revenues over expenses before investment income	(85,313)	(326,762)	589,665
Investment income	234,700	416,090	384,410
Excess of revenues over expenses	**$ 149,387**	**$ 89,328**	**$ 974,075**

See accompanying notes to financial statements.

GREATER VICTORIA HARBOUR AUTHORITY

STATEMENT OF CHANGE IN NET ASSETS

Year ended March 31, 2015 with comparative information for 2014

	Investment in capital assets	Internally restricted	Unrestricted	Total
Balance, April 1, 2013	$31,540,383	$ 2,234,242	$ 7,328,918	$41,103,543
Excess (deficiency) of revenue over expenses	(905,395)	233,617	1,645,853	974,075
Net purchase of capital assets	4,256,457	-	(4,256,457)	-
Restricted capital contributions received	(73,300)	-	73,300	-
Transfer to internally restricted reserve fund	-	97,902	(97,902)	-
Balance, April 1, 2014	34,818,145	2,565,761	4,693,712	42,077,618
Excess (deficiency) of revenue over expenses	(975,809)	211,710	853,427	89,328
Net purchase of capital assets	903,897	-	(903,897)	-
Transfer to internally restricted reserve fund	-	2,091,348	(2,091,348)	-
Balance, March 31, 2015	$34,746,233	$ 4,868,819	$ 2,551,894	$42,166,946

See accompanying notes to financial statements.

GREATER VICTORIA HARBOUR AUTHORITY

STATEMENT OF CASH FLOWS

Year ended March 31, 2015 with comparative information for 2014

	2015	2014
Cash flows from operating activities:		
Excess of revenues over expenses	$ 89,328	$ 974,075
Items not involving cash:		
Amortization of deferred contributions	(8,210)	(683,547)
Amortization of deferred capital contributions	(997,710)	(989,954)
Amortization of capital assets	2,116,788	1,938,856
Unrealized gain on investments	(211,710)	(233,617)
Gain on sale of capital assets	(143,269)	(43,507)
Net change in non-cash working capital:		
Decrease in accrued interest on guaranteed investment certificates	43,915	4,352
Decrease (increase) in accounts receivable	311,483	(79,045)
Decrease (increase) in prepaid expenses	34,763	(93,512)
Increase in long term accounts receivable	(121,706)	-
Decrease in accounts payable and accrued liabilities	(91,452)	(447,361)
Increase (decrease) in deferred revenue	(40,266)	104,668
	981,954	451,408
Financing activities:		
Deferred contributions received	-	97,811
Deferred capital contributions received	-	73,300
Fixed term loan draws	84,356	650,000
Fixed term loan principal payments	(88,090)	(129,817)
	(3,734)	691,294
Investing activities:		
Purchase of capital assets	(630,698)	(2,797,250)
Capital assets under construction	(453,381)	(1,502,714)
Proceeds from disposal of capital assets	180,182	43,507
Purchase of investments	(673,920)	(97,903)
Guaranteed investment certificates matured	6,933,159	6,798,701
Purchase of guaranteed investment certificates	(4,825,955)	(5,924,633)
Loans to related parties	(100,000)	-
Restricted cash (note 3)	(600,000)	-
	(170,613)	(3,480,292)
Increase (decrease) in cash and cash equivalents	807,607	(2,337,590)
Cash and cash equivalents, beginning of year	1,171,354	3,508,944
Cash and cash equivalents, end of year	$ 1,978,961	$ 1,171,354

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Greater Victoria Harbour Authority (the “Authority”) is incorporated under the Society Act (British Columbia). Its principal activity is to manage and develop the Victoria and Esquimalt harbours to meet local, Esquimalt Nation, Songhees Nation, municipal, provincial and federal interests and priorities.

In 2002 Transport Canada contributed lands and improvements at Ogden Point, Erie Street, Wharf Street and Ship Point. The contributions are subject to various restrictions including continued use as a port facility.

The land and improvements were transferred to the Authority at a nominal value of $1. The assets were recorded at an estimated fair market value of $50,481,120, as determined by the BC Assessment Authority through their annual valuation and assessment process.

1. **Significant accounting policies:**

   These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook. The Authority’s significant accounting policies are as follows:

   a. Revenue recognition:

      The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

      Contributions of capital assets that will be amortized are initially deferred and subsequently recognized as revenue on the same basis as the related costs are amortized. Contributions for capital assets that will not be amortized, such as land, are not recorded as deferred capital contributions or recognized as revenue, but are recorded as a direct increase in net assets in the period the asset is received.

      Revenue from operations is recognized as services are performed. Amounts received for future services are deferred until the service is provided.

      Revenue recognition under a lease commences when the tenant has a right to use the leased assets. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. Rental revenue also includes percentage participating rents and recoveries of operating expenses, including realty taxes. Percentage participating rents are recognized when tenants’ specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

   b. Cash and cash equivalents:

      Cash and cash equivalents include deposits in banks and short-term investments with a term to maturity of three months or less at the date of purchase.

   c. Financial instruments:

      Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Authority has elected to carry all investments at fair value. The Authority has not elected to carry any other financial instruments at fair value.

      Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, the Authority determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the

c. Financial instruments (continued):

carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Authority expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

d. Investment income:

Investment income, which is recorded on the accrual basis, includes interest income, dividends, net gain on sale of securities and unrealized gains (losses).

e. Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at their estimated fair market value determined at the date of contribution.

Amortization is provided on a straight-line basis over their estimated useful life at the following amortization periods:

Asset	Amortization period
Breakwater and piers	50 years
Wharves and docks:	
Refurbished existing	10–15 years
New construction	20–25 years
Buildings	3–50 years
Yard improvements	5–10 years
Furniture and fixtures	5 years
Office and maintenance equipment	2–7 years
Boats, marine and automotive	3–5 years

Amortization is not provided on capital assets under construction until the assets are available for use.

f. Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the life of the asset. At this time, the Authority has determined that there are no significant asset retirement obligations.

g. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The more subjective of such estimates are the amortization period of capital assets. Actual results could differ from these estimates.

2. Guaranteed investment certificates:

	2015	2014
Short-term certificates	$ 2,871,097	$ 5,837,424

Guaranteed investment certificates earn rates of interest between 1.20% and 1.85%, with various maturity dates to February 4, 2016.

3. Restricted cash and guaranteed investment certificate:

Restricted cash and guaranteed investment certificate includes an amount of $140,017 (2014- $142,237) which is restricted for Ogden Point caisson repairs under the contribution agreements with Transport Canada.

The remaining amounts relate to a required investment security under the terms and conditions of the fixed term loan (note 8). The guaranteed investment certificate amounts to $817,428 (1.4% interest) and the remaining $600,000 is a cash deposit.

4. Investments:

Investments represent funds invested for internally restricted purposes (note 11). The major components of investments stated at market value are as follows:

	2015	2014
Fixed income	$ 1,852,977	$ 1,077,392
Canadian equity	695,912	622,787
US equity	364,804	382,571
International equity	363,201	347,777
Real estate	174,497	135,234
	$ 3,451,391	$ 2,565,761

5. Long-term receivable:

The long-term receivable is due from a tenant of the Authority and is payable in equal monthly installments of $3,259 commencing on April 1, 2016 and ending on January 1, 2018 when this receivable will be paid in full, after application of the $50,000 deposit currently held by the Authority.

6. Loans from related parties:

On April 1, 2014 the Authority issued $50,000 loans to two related parties, the Esquimalt Nation and the Songhees Nation, for the purpose of providing an initial contribution to the Skwin'ang'eth Selas Development Company (note 16). The Esquimalt Nation and Songhees Nation are Members of the Authority. The loans bear no interest and are payable in full on the maturity date, March 31, 2017.

7. Capital assets:

2015	Cost	Accumulated amortization	Net book value
Land	$ 19,563,855	$ -	$ 19,563,855
Breakwater and piers	33,121,584	8,513,073	24,608,511
Wharves and docks	8,290,215	4,655,669	3,634,546
Buildings and yard improvements	12,767,869	4,715,853	8,052,016
Furniture and fixtures	43,804	43,804	-
Office and maintenance equipment	391,087	174,716	216,371
Boats, marine and automotive	229,578	143,035	86,543
Capital assets under construction	1,852,243	-	1,852,243
	$ 76,260,235	$ 18,246,150	$ 58,014,085

2014	Cost	Accumulated amortization	Net book value
Land	$ 19,563,855	$ -	$ 19,563,855
Breakwater and piers	32,129,032	7,613,928	24,515,104
Wharves and docks	8,321,875	4,282,071	4,039,804
Buildings and yard improvements	12,089,991	4,018,915	8,071,076
Furniture and fixtures	43,804	43,804	-
Office and maintenance equipment	181,087	153,121	27,966
Boats, marine and automotive	229,578	120,016	109,562
Capital assets under construction	2,756,340	-	2,756,340
	$ 75,315,562	$ 16,231,855	$ 59,083,707

8. Fixed term loan:

	2015	2014
Fixed rate operating loan maturing November 27, 2015 bearing 2.87% interest, interest only payments monthly until maturity	$ 1,366,449	$ -
Fixed term loan	-	1,370,183
	1,366,449	1,370,183
Less current portion	(1,366,449)	(132,877)
	$ -	$ 1,237,306

The fixed term loan is funding Steamship Terminal building improvements. The Authority has cash and a guaranteed investment certificate invested as security for the fixed term loan (note 3).

9. Deferred contributions:

Deferred contributions received from Transport Canada are to be expended on eligible expenditures, as outlined in the Contribution Agreement for each facility. Until expended on eligible expenditures, the contributions are restricted. Any amounts not expended by the end of the agreement are repayable to the federal government. The Project Contribution agreement and repayment date for Ogden Point was extended to June 24, 2017.

	Balance March 31, 2014	Amounts amortized to revenue	Balance March 31, 2015
Transport Canada:			
Special projects:			
Ogden Point- pier upgrades	$ 142,236	$ 2,220	$ 140,016
Other federal, provincial and municipal contributions:			
Ogden Point	30,000	-	30,000
Steamship Terminal	106,453	5,990	100,463
Total deferred contributions	$ 278,689	$ 8,210	$ 270,479

10. Deferred capital contributions:

Deferred capital contributions represent unamortized capital contributions received from Transport Canada and other federal and provincial contributions.

	Balance March 31, 2014	Amounts amortized to revenue	Balance March 31, 2015
Transport Canada:			
Erie Street	$ 102,680	$ 15,298	$ 87,382
Wharf Street	249,653	83,213	166,440
Ship Point	340,010	113,333	226,677
Ogden Point	20,718,806	543,990	20,174,816
Ogden Point- pier upgrades	983,941	130,059	853,882
	22,395,090	885,893	21,509,197
Other federal and provincial contributions:			
Ogden Point	1,870,472	111,817	1,758,655
Total deferred capital contributions	$ 24,265,562	$ 997,710	$ 23,267,852

11. Internally restricted net assets:

Internally restricted assets are reserved to fund a future earthquake insurance deductible or a business interruption or material revenue loss exposure. These internally restricted amounts are not available for other purposes without the approval of the Board of Directors.

12. Cruise sustainability fee:

On April 1, 2010, the Authority introduced a cruise sustainability fee to all cruise lines calling at the Ogden Point Terminal. Cruise sustainability fee revenues are used solely to recover and fund capital expenditures related to the construction or improvement of cruise infrastructure. The cruise sustainability fee is $1.98 (effective April 1, 2014) per cruise line passenger.

To March 31, 2015 cumulative expenditures exceed cumulative sustainability fee revenues less any grant funding received for cruise sustaining projects as follows:

	Balance March 31, 2015
Cruise sustainability fee revenues	$ 3,820,832
Grant funding received for cruise sustaining projects	1,925,673
	5,746,505
Cruise sustaining expenditures	(5,810,260)
Excess of cruise sustaining expenditures over cruise sustainability revenue and grant funding received:	$ (63,755)

13. Commitments and contingencies:

a. Lease commitment

On September 1, 2012 the Authority commenced a lease of the CPR Steamship Terminal Building for a term of 19 years and 7 months with 2 renewal terms of 10 years each. Under the lease agreement there is a fixed portion of base rent payable monthly as well as percentage rent which is payable annually. Percentage rent is based on one-half of revenues earned from tenants of the building less operating costs with a deduction for the amount of annual base rent and a deduction of $75,000 tenant improvement allowance.

On March 1, 2014 the Authority commenced a lease of the 6th floor of the Dogwood Building for a term of 3 years. Under the lease agreement there is a fixed portion of base rent payable monthly as well as a proportionate share of operating costs.

The fixed payments of base rent for the next five years are as follows:

		Steamship Terminal	Dogwood
2016	$	325,000	$ 138,119
2017		325,000	133,403
2018		345,000	-
2019		345,000	-
2020		345,000	-
Thereafter		4,872,000	-

Contingent asset

Under the Steamship Terminal lease agreement and subject to certain conditions, the landlord will provide the Authority with up to $1,500,000 of tenant improvement allowance to be realized by way of a $75,000 annual deduction against percentage rent. Within the first four years of the initial term of the lease the annual deduction may be accrued and carried forward for deduction against the landlord’s percentage rent. The allowance was not provided in the current year, however it is anticipated that it will be deducted against future percentage rent payable.

b. Letter of credit

As at March 31, 2015 the Authority had a letter of credit outstanding to the Department of Fisheries in the amount of $50,900 for compensation habitat monitoring at Ogden Point. The letter of credit is expected to be released in January 2016.

14. Board of directors’ fees:

For purposes of director’s fees, as per amendment to Special Resolution 14.04.04, CAM-Sec 4.4, annual director’s fees shall not exceed 5% of the previous year’s gross revenues. The total fees paid in the fiscal year amounted to $179,106 which represented 1.7% of the previous year’s gross revenues (2014- $145,447, 1.8%).

15. Financial instruments:

a. Foreign currency risk

The Authority holds investments in equities outside of Canada which are subject to foreign exchange risk (note 4).

b. Interest rate risk

The Authority's exposure to interest rate risk relates to its investments in fixed income securities and its fixed rate term loan. The fair value of these instruments is directly impacted by changes in interest rates. The objective of the Authority's investment policy is to control interest rate risk by managing its interest rate exposure.

c. Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. For cash, cash equivalents, guaranteed investment certificates, investments and receivables the Authority's credit risk is limited to the carrying value on the statement of financial position.

The Authority manages the risk associated with the concentration of credit risk through its policy of dealing with high credit quality financial institutions.

d. Market risk

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As all of the Authority's investments are carried at fair value with fair value changes recognized in the statement of operations, all changes in market conditions will directly result in an increase or decrease in net assets. The objective of market risk management is to mitigate market risk exposures within acceptable parameters while optimizing the return on risk. This risk is mitigated by the investment policies for the respective asset mixes to be followed by the investment managers with established guidelines for a risk tolerance and exposures, the requirements for diversification of investments within each asset class and credit quality constraints on fixed income investments.

16. Significantly influenced organization:

Skwin'ang'eth Selas Development Company was incorporated on December 19, 2013 under the Canada Not-for-profit Corporations Act with the purpose of, among other things, promoting economic development opportunities for the Esquimalt Nation and Songhees Nation communities.

The non-profit organization was established jointly by the Esquimalt Nation, Songhees Nation and Greater Victoria Harbour Authority with equal representation on its Board of Directors. As a non-profit corporation, activities will not be carried out for the purpose of return for GVHA. Any surpluses will be used to further the corporation's purpose.

On April 1, 2014 the Authority and the Skwin'ang'eth Selas Development Company initiated a revenue contribution agreement for a term of 3 years. During the term of the agreement the Authority will contribute a portion of its operating revenue (excluding cruise sustainability fees and other recovered costs and in-kind revenue) in respect of each operating year (2015- 0.50%, 2016- 0.75% and 2017- 1.00%) payable quarterly. For the fiscal year ending March 31, 2015 the amount payable to Skwin'ang'eth Selas totaled $48,094 of which $4,604 was outstanding at March 31, 2015. The contribution to Skwin'ang'eth Selas is recognized in the Authority's administrative expense category in the statement of operations.

17. Budget data:

The budget data presented in these financial statements is based upon the 2015 operating and capital budgets approved by the Board of Directors on February 21, 2014.

18. Comparative information:

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