

Financial Statements of

**GREATER VICTORIA
HARBOUR AUTHORITY**

Year ended March 31, 2016



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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 Greater Victoria Harbour Authority, which comprise the statement of financial position as at March 31, 2016, 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 Greater Victoria Harbour Authority as at March 31, 2016, 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Professional Accountants

September 1, 2016
Victoria, Canada

GREATER VICTORIA HARBOUR AUTHORITY

Statement of Financial Position

March 31, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 901,916 | \$ 1,978,961 |
| Guaranteed investment certificates (note 2) | 4,990,180 | 2,871,097 |
| Restricted cash and guaranteed investment certificates (note 3) | 140,017 | 1,557,445 |
| Accounts receivable | 339,089 | 401,486 |
| Loans from related parties (note 4) | 100,000 | - |
| Prepaid expenses | 175,857 | 178,269 |
| | <u>6,647,059</u> | <u>6,987,258</u> |
| Investments (note 5) | 3,375,226 | 3,451,391 |
| Long-term receivable | - | 121,706 |
| Loans receivable from related parties (note 4) | - | 100,000 |
| Capital assets (note 6) | 57,442,224 | 58,014,085 |
| | <u>\$ 67,464,509</u> | <u>\$ 68,674,440</u> |

Liabilities, Deferred Contributions and Net Assets

| | | |
|--|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,526,732 | \$ 1,254,994 |
| Deferred revenue and deposits | 411,489 | 347,720 |
| Fixed term loan (note 7) | - | 1,366,449 |
| | <u>1,938,221</u> | <u>2,969,163</u> |
| Deferred contributions (note 8) | 291,710 | 270,479 |
| Deferred capital contributions (note 9) | 22,262,546 | 23,267,852 |
| Net assets: | | |
| Invested in capital assets | 35,179,678 | 34,746,233 |
| Internally restricted reserve fund (note 10) | 4,990,273 | 4,868,819 |
| Unrestricted | 2,802,081 | 2,551,894 |
| | <u>42,972,032</u> | <u>42,166,946</u> |
| | <u>\$ 67,464,509</u> | <u>\$ 68,674,440</u> |

Commitments and contingencies (note 12)

See accompanying notes to financial statements.

Approved by the Board:

Director

Director

GREATER VICTORIA HARBOUR AUTHORITY

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

| | Budget (note 16) | 2016 | 2015 |
|---|---------------------|-------------------|------------------|
| Revenues: | | | |
| Shipping | \$ 5,532,568 | \$ 5,956,709 | \$ 5,760,335 |
| Marinas and attractions | 2,080,757 | 2,083,020 | 2,000,554 |
| Commercial real property | 1,871,391 | 2,059,663 | 1,858,003 |
| | 9,484,716 | 10,099,392 | 9,618,892 |
| Cruise sustainability fee (note 11) | 1,055,265 | 1,082,700 | 925,749 |
| Other recovered costs and in-kind sponsorship | 734,224 | 520,032 | 552,368 |
| | 11,274,205 | 11,702,124 | 11,097,009 |
| Expenses: | | | |
| General operating expenses | 3,067,127 | 2,994,801 | 3,766,647 |
| Repairs and maintenance | 1,608,763 | 1,340,589 | 1,628,806 |
| Insurance | 356,161 | 353,606 | 338,293 |
| Property taxes | 971,747 | 915,113 | 914,056 |
| Administrative | 3,909,838 | 4,064,396 | 3,808,370 |
| Amortization of capital assets | 2,160,187 | 2,243,880 | 2,116,788 |
| | 12,073,823 | 11,912,385 | 12,572,960 |
| Deficiency of revenues over expenses before the following | (799,618) | (210,261) | (1,475,951) |
| Deferred non-capital contributions recognized as revenue (note 8) | 5,990 | 5,990 | 8,210 |
| Deferred capital contributions recognized as revenue (note 9) | 987,526 | 1,005,307 | 997,710 |
| Gain on disposal of capital assets | - | 3,500 | 143,269 |
| Excess (deficiency) of revenues over expenses before investment income | 193,898 | 804,536 | (326,762) |
| Investment income | 299,850 | 550 | 416,090 |
| Excess of revenues over expenses | \$ 493,748 | \$ 805,086 | \$ 89,328 |

See accompanying notes to financial statements.

GREATER VICTORIA HARBOUR AUTHORITY

Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

| | Investment in capital assets | Internally restricted | Unrestricted | Total |
|---|---------------------------------|--------------------------|--------------|---------------|
| 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 |
| Excess (deficiency) of revenue over expenses | (1,235,073) | (76,593) | 2,116,752 | 805,086 |
| Net purchase of capital assets | 1,668,518 | - | (1,668,518) | - |
| Transfer to internally restricted reserve fund | - | 198,047 | (198,047) | - |
| Balance, March 31, 2016 | \$ 35,179,678 | \$ 4,990,273 | \$ 2,802,081 | \$ 42,972,032 |

See accompanying notes to financial statements.

GREATER VICTORIA HARBOUR AUTHORITY

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|--------------------|---------------------|
| Cash flows from operating activities: | | |
| Excess of revenues over expenses | \$ 805,086 | \$ 89,328 |
| Items not involving cash: | | |
| Amortization of capital assets | 2,243,880 | 2,116,788 |
| Amortization of deferred contributions | (5,990) | (8,210) |
| Amortization of deferred capital contributions | (1,005,307) | (997,710) |
| Gain on sale of capital assets | (3,500) | (143,269) |
| Unrealized loss (gain) on investments | 76,165 | (211,710) |
| Net changes in non-cash working capital: | | |
| Decrease (increase) in accrued interest on guaranteed investment certificates | (12,080) | 43,915 |
| Decrease in accounts receivable | 62,397 | 311,483 |
| Decrease in prepaid expenses | 2,412 | 34,763 |
| Decrease (increase) in long term accounts receivable | 121,706 | (121,706) |
| Increase (decrease) in accounts payable and accrued liabilities | 271,738 | (91,452) |
| Increase (decrease) in deferred revenue and deposits | 63,769 | (40,266) |
| | <u>2,620,276</u> | <u>981,954</u> |
| Financing activities: | | |
| Deferred contributions received | 27,221 | - |
| Fixed term loan draws | - | 84,356 |
| Fixed term loan principal payments | (1,366,449) | (88,090) |
| | <u>(1,339,228)</u> | <u>(3,734)</u> |
| Investing activities: | | |
| Purchase of capital assets | (1,672,019) | (1,084,079) |
| Proceeds from disposal of capital assets | 3,500 | 180,182 |
| Purchase of investments | - | (673,920) |
| Guaranteed investment certificates matured | 3,817,428 | 6,933,159 |
| Purchase of guaranteed investment certificates | (5,107,002) | (4,825,955) |
| Loans to related parties | - | (100,000) |
| Restricted cash | 600,000 | (600,000) |
| | <u>(2,358,093)</u> | <u>(170,613)</u> |
| Increase (decrease) in cash and cash equivalents | (1,077,045) | 807,607 |
| Cash and cash equivalents, beginning of year | 1,978,961 | 1,171,354 |
| <u>Cash and cash equivalents, end of year</u> | <u>\$ 901,916</u> | <u>\$ 1,978,961</u> |

See accompanying notes to financial statements.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

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.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

1. Significant accounting policies (continued):

(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 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.

When a capital asset no longer contributes to the Authority's ability to provide services, its carrying value is written down to its residual value.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

1. Significant accounting policies (continued):

(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:

| | 2016 | 2015 |
|-------------------------|--------------|--------------|
| Short-term certificates | \$ 4,990,180 | \$ 2,871,097 |

Guaranteed investment certificates earn rates of interest between 0.85% and 1.45%, with various maturity dates to February 4, 2017.

3. Restricted cash and guaranteed investment certificate:

Restricted cash and guaranteed investment certificate includes an amount of \$140,017 (2015 - \$140,017) which is restricted for Ogden Point caisson repairs under the contribution agreements with Transport Canada.

The remaining 2015 amounts related to a required investment security under the terms and conditions of a fixed term loan that was repaid in 2016 (note 7). This consisted of a guaranteed investment certificate of \$817,428 (1.4% interest) and a cash deposit of \$600,000.

4. 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 15). 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.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

5. Investments:

Investments represent funds invested for internally restricted purposes (note 10). The major components of investments stated at market value are as follows:

| | 2016 | 2015 |
|----------------------|---------------------|---------------------|
| Fixed income | \$ 1,848,239 | \$ 1,852,977 |
| Canadian equity | 649,710 | 695,912 |
| US equity | 364,251 | 364,804 |
| International equity | 343,518 | 363,201 |
| Real estate | 169,508 | 174,497 |
| | <u>\$ 3,375,226</u> | <u>\$ 3,451,391</u> |

6. Capital assets:

| 2016 | Cost | Accumulated amortization | Net book value |
|-----------------------------------|----------------------|-----------------------------|----------------------|
| Land | \$ 19,563,855 | \$ - | \$ 19,563,855 |
| Breakwater and piers | 33,530,942 | 9,240,857 | 24,290,085 |
| Wharves and docks | 8,290,473 | 5,350,066 | 2,940,407 |
| Buildings and yard improvements | 13,876,044 | 5,463,649 | 8,412,395 |
| Furniture and fixtures | 43,804 | 43,804 | - |
| Office and maintenance equipment | 391,087 | 212,610 | 178,477 |
| Boats, marine and automotive | 281,488 | 148,785 | 132,703 |
| Capital assets under construction | 1,924,302 | - | 1,924,302 |
| | <u>\$ 77,901,995</u> | <u>\$ 20,459,771</u> | <u>\$ 57,442,224</u> |

| 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 |
| | <u>\$ 76,260,235</u> | <u>\$ 18,246,150</u> | <u>\$ 58,014,085</u> |

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

7. Fixed term loan:

| | 2016 | 2015 |
|--|------|--------------|
| Fixed rate operating loan maturing November 27, 2015 bearing 2.87% interest, interest only payments monthly until maturity | \$ - | \$ 1,366,449 |
| Current portion | - | (1,366,449) |
| | \$ - | \$ - |

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

8. 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, 2015 | Amounts amortized to revenue | Amounts received | Balance March 31, 2016 |
|---|------------------------------|------------------------------------|---------------------|------------------------------|
| Transport Canada: | | | | |
| Special Projects: | | | | |
| Ogden Point - pier upgrades | \$ 140,016 | \$ - | \$ - | \$ 140,016 |
| Other federal, provincial and municipal contributions: | | | | |
| Ogden Point | 30,000 | - | 17,221 | 47,221 |
| Steamship Terminal | 100,463 | 5,990 | 10,000 | 104,473 |
| | 130,463 | 5,990 | 27,221 | 151,694 |
| Total deferred contributions | \$ 270,479 | \$ 5,990 | \$ 27,221 | \$ 291,710 |

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

9. Deferred capital contributions:

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

| | Balance March 31, 2015 | Amounts amortized to revenue | Balance March 31, 2016 |
|--|------------------------------|------------------------------------|------------------------------|
| Transport Canada: | | | |
| Erie Street | \$ 87,382 | \$ 19,517 | \$ 67,865 |
| Wharf Street | 166,440 | 84,690 | 81,750 |
| Ship Point | 226,677 | 113,541 | 113,136 |
| Ogden Point | 20,174,816 | 545,682 | 19,629,134 |
| Ogden Point - pier upgrades | 853,882 | 130,059 | 723,823 |
| | 21,509,197 | 893,489 | 20,615,708 |
| Other federal and provincial contributions: | | | |
| Ogden Point | 1,758,655 | 111,817 | 1,646,838 |
| Total deferred capital contributions | \$ 23,267,852 | \$ 1,005,306 | \$ 22,262,546 |

10. Internally restricted net assets:

Internally restricted assets include an amount of \$4,792,226 (2015 - \$4,868,819) which 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.

The remaining amounts of \$198,047 relate to the excess of cruise sustainability revenue and grant funding received over cruise sustaining expenditures (note 11). These amounts are restricted for capital expenditures related to the construction or improvement of cruise infrastructure and are anticipated to be expended by March 2017.

11. 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 \$2.00 (effective April 1, 2015) per cruise line passenger.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

11. Cruise sustainability fee (continued):

To March 31, 2016 cumulative sustainability fee revenues and grant funding received for cruise sustaining projects exceed cumulative expenditures as follows:

| | |
|---|-------------------|
| Cruise sustainability fee revenues | \$ 4,903,532 |
| Grant funding received for cruise sustaining projects | 1,925,673 |
| | <u>6,829,205</u> |
| Cruise sustaining expenditures | (6,631,158) |
| Excess of cruise sustainability revenue and grant funding received over cruise sustaining expenditures: | <u>\$ 198,047</u> |

12. Commitments and contingencies:

(a) Lease commitments:

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 April 1, 2016 the Authority commenced a lease of the 1st floor of the Dogwood Building for a term of 7 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 |
|------------|--------------------|-----------|
| 2017 | \$ 325,000 | \$ 94,878 |
| 2018 | 345,000 | 94,878 |
| 2019 | 345,000 | 94,878 |
| 2020 | 345,000 | 100,149 |
| 2021 | 370,000 | 100,149 |
| Thereafter | 4,502,000 | 210,840 |

(b) 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 applied in the current year, however it is anticipated that it will be deducted against future percentage rent payable.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

12. Commitments and contingencies (continued):

(c) Letter of credit:

As at March 31, 2016 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 2017.

13. 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 \$153,052 which represented 1.4% of the previous year's gross revenues (2015 - \$179,106, 1.7%).

14. Financial instruments:

(a) Foreign currency risk:

The Authority holds investments in equities outside of Canada which are subject to foreign exchange risk (note 5).

(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.

GREATER VICTORIA HARBOUR AUTHORITY

Notes to Financial Statements

Year ended March 31, 2016

14. Financial instruments (continued):

(d) Market risk (continued):

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.

15. 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 the Authority. 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, 2016 the amount payable to Skwin'ang'eth Selas totaled \$76,208 of which \$7,508 was outstanding at March 31, 2016. The contribution to Skwin'ang'eth Selas is recognized in the Authority's administrative expense category in the statement of operations.

16. Budget data:

The budget data presented in these financial statements is based upon the 2016 operating and capital budgets approved by the Board of Directors on May 22, 2015.

17. Comparative information:

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