

District of Port Hardy

Consolidated Financial Statements

December 31, 2013





THE DISTRICT OF PORT HARDY

2013 ELECTED OFFICIALS

Mayor B. Parnham

Councillor J. Dorward

Councillor J. Hemphill

Councillor D. Huddleston

Councillor R. Marcotte

Councillor N. Shaw

Councillor J. Tidbury

DISTRICT OFFICIALS

Chief Administrative Officer

Director of Financial Services

Director of Corporate Services

Director of Operations

Royal Canadian Mounted Police

Fire Chief

R. Davidge

A. McCarrick

J. Long

T. Kushner

Staff Sgt. Brownridge

S. Nickerson

MUNICIPAL AUDITORS

MNP LLP

BANKERS

CIBC

District of Port Hardy

December 31, 2013

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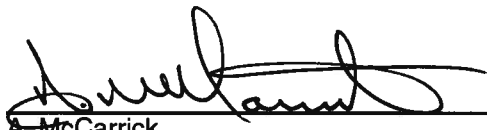
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The accompanying financial statements are the responsibility of management. To ensure their integrity, objectivity and reliability, the statements have been prepared in accordance with the recommendations of the Public Sector Accounting Board, which are generally accepted accounting principles for British Columbia municipalities and are outlined in (Note 1) to the Consolidated Statements. Some amounts on these statements are based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly.

Council is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Council. The Council reviews external Audited Financial Statements annually.

The external auditors, MNP LLP, are appointed by Council to conduct an independent examination in accordance with Canadian auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the District's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to financial records and management of the District of Port Hardy.



A. McCarrick

Chief Financial Officer



Bev Parnham

Mayor

Independent Auditors' Report

To the Mayor and Council of the District of Port Hardy:

We have audited the accompanying consolidated financial statements of the District of Port Hardy, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies, schedules and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

At December 31, 2013, we were unable to verify the amount of earnings and the investment recorded on a modified equity basis from the North Island Community Forest. Income from investment in government business enterprises of \$291,870 has been recorded in revenue and as an increase to the Investment in government business enterprises on the statement of financial position at December 31, 2013 (see Note 19); however, we have not been provided information to verify the occurrence, accuracy or completeness of those amounts.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the District as at December 31, 2013, and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Campbell River, British Columbia

May 1, 2014

MNP LLP

Chartered Accountants

District of Port Hardy
Consolidated Statement of Financial Position
As At December 31, 2013

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Financial Assets | | |
| Cash and cash equivalents (Note 2) | \$ 3,113,570 | \$ 2,075,963 |
| Accounts receivable (Note 3) | 1,962,298 | 3,445,657 |
| Loan receivable (Note 19) | - | 38,333 |
| Investment in Government business enterprises (Note 19) | 237,572 | 45,702 |
| Tax sale properties | 27,725 | 12,912 |
| Land held for resale | 506 | 506 |
| | <u>5,341,671</u> | <u>5,619,073</u> |
| Financial Liabilities | | |
| Accounts payable and other liabilities (Note 4) | 867,638 | 764,157 |
| Tax sale properties deposits | 33,856 | 16,912 |
| Performance deposits and bonds (Note 5) | 14,900 | 10,000 |
| Deferred revenue (Note 6) | 685,659 | 892,957 |
| Capital leases (Note 8) | 897,605 | 1,097,719 |
| Capital borrowing (Note 21) | 80,000 | - |
| Long-term debt (Note 9) | 895,066 | 1,097,739 |
| | <u>3,474,724</u> | <u>3,879,484</u> |
| Net Financial Assets | <u>1,866,947</u> | <u>1,739,589</u> |
| Non-Financial Assets | | |
| Tangible capital assets (Note 10) | 41,009,780 | 41,298,278 |
| Inventory | 206,003 | 83,771 |
| Prepays | 59,449 | 18,693 |
| | <u>41,275,232</u> | <u>41,400,742</u> |
| Accumulated Surplus (Schedule 3) | <u>\$ 43,142,179</u> | <u>\$ 43,140,331</u> |

Commitments and Contingencies (Note 16)

Approved by:



 A. McCarrick

Chief Financial Officer

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

District of Port Hardy
Consolidated Statement of Operations
For the Year Ended December 31, 2013

| | 2013 | 2013 Budget (Note 12) | 2012 |
|---|-----------------------------|-----------------------------|-----------------------------|
| Revenue | | | |
| Taxes | \$ 2,295,127 | \$ 2,296,415 | \$ 2,217,105 |
| Payments in lieu of taxes | 163,888 | 160,930 | 156,649 |
| Sewer user rates | 1,025,846 | 1,111,450 | 1,011,733 |
| Water user rates | 1,195,605 | 1,339,520 | 1,253,300 |
| Sale of Service | 1,124,837 | 760,261 | 972,716 |
| Other revenue | 387,983 | 306,307 | 475,480 |
| Income from investment in Government business enterprises | 291,870 | - | 62,240 |
| Development contributions | - | - | 645,225 |
| Government transfers from other governments | 1,239,437 | 1,474,520 | 1,704,800 |
| | <u>7,724,593</u> | <u>7,449,403</u> | <u>8,499,248</u> |
| Expenses | | | |
| General government services | 926,695 | 921,750 | 1,114,282 |
| Transportation services | 1,646,468 | 1,631,589 | 1,589,595 |
| Protective services | 457,279 | 422,253 | 435,337 |
| Environmental health services | 273,990 | 262,817 | 263,013 |
| Recreation & Culture | 1,274,352 | 1,264,365 | 1,262,778 |
| Community development | 171,028 | 220,041 | 215,632 |
| Water | 1,559,189 | 1,330,013 | 1,332,469 |
| Sewer | 1,413,744 | 1,318,010 | 1,411,516 |
| | <u>7,722,745</u> | <u>7,370,838</u> | <u>7,624,622</u> |
| Annual Surplus | 1,848 | 78,565 | 874,626 |
| Accumulated surplus beginning of year | 43,140,331 | 43,140,331 | 42,265,705 |
| Accumulated Surplus, end of year | <u><u>\$ 43,142,179</u></u> | <u><u>\$ 43,218,896</u></u> | <u><u>\$ 43,140,331</u></u> |

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

District of Port Hardy

Consolidated Statement of Changes in Net Financial Assets As At December 31, 2013

| | 2013 | 2013 Budget (Note 12) | 2012 |
|---|---------------------|-----------------------------|---------------------|
| Annual Surplus | \$ 1,848 | \$ 78,565 | \$ 874,626 |
| Acquisition of tangible capital assets | (1,507,743) | (1,755,578) | (1,447,634) |
| Amortization | 1,782,876 | 1,520,000 | 1,687,356 |
| Disposal of tangible capital assets | 13,365 | - | - |
| Development contributions | - | - | (645,225) |
| | <u>288,498</u> | <u>(235,578)</u> | <u>(405,503)</u> |
| Acquisition of prepaid expense | (59,449) | - | (18,693) |
| Acquisition of supplies inventory | (122,232) | - | (2,425) |
| Use of prepaid expense | 18,693 | - | 15,990 |
| | <u>(162,988)</u> | <u>-</u> | <u>(5,128)</u> |
| Change in net financial assets | 127,358 | (157,013) | 463,995 |
| Net financial assets, beginning of year | 1,739,589 | 1,739,589 | 1,275,594 |
| Net financial assets, end of year | <u>\$ 1,866,947</u> | <u>\$ 1,582,576</u> | <u>\$ 1,739,589</u> |

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

District of Port Hardy

Consolidated Statement of Cash Flows For the Year Ended December 31, 2013

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Cash Provided By (Used In) | | |
| Operating Activities | | |
| Annual Surplus | \$ 1,848 | \$ 874,626 |
| Increase (Decrease) in Non Financial Assets | | |
| Amortization | 1,782,876 | 1,687,356 |
| Developer tangible capital asset contribution | - | (645,225) |
| Change in inventory | (122,232) | (2,426) |
| Change in prepaids | (40,756) | (2,703) |
| | <u>1,621,736</u> | <u>1,911,628</u> |
| (Increase) Decrease in Financial Assets and Liabilities | | |
| Change in accounts receivable | 1,483,359 | 726,799 |
| Change in loan receivable | 38,333 | - |
| Change in accounts payable | 103,481 | 34,070 |
| Change in tax sale properties | (14,813) | 66,034 |
| Change in tax sale deposits | 16,944 | (39,735) |
| Change in performance deposits and bonds | 4,900 | (8,500) |
| Change in investment in Government business enterprises | (191,870) | (62,240) |
| Change in Actuarial | (36,090) | (28,295) |
| Change in deferred revenue | (207,298) | 362,044 |
| | <u>2,818,682</u> | <u>2,961,805</u> |
| Cash provided by operating transactions | <u>2,818,682</u> | <u>2,961,805</u> |
| Capital Activities | | |
| Acquisition of tangible capital assets | (1,392,913) | (1,447,634) |
| Financing Activities | | |
| Capital lease repaid | (321,580) | (279,874) |
| Debenture debt repaid | (166,582) | (166,582) |
| Capital borrowing | 100,000 | - |
| | <u>(388,162)</u> | <u>(446,456)</u> |
| Net increase in cash and cash equivalents | 1,037,607 | 1,067,715 |
| Cash and cash equivalents at beginning of period | 2,075,963 | 1,008,248 |
| Cash and cash equivalents at end of period | <u>\$ 3,113,570</u> | <u>\$ 2,075,963</u> |

Continued on next page

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

District of Port Hardy
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2013

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Consolidated Statement of Cash Flows continued. | | |
| Represented by | | |
| Cash | \$ 394,338 | \$ 412,194 |
| Investments | 2,719,232 | 1,663,769 |
| | <u>\$ 3,113,570</u> | <u>\$ 2,075,963</u> |
| Supplemental information | | |
| Interest paid | \$ 152,031 | \$ 152,452 |
| Interest received | \$ 48,262 | \$ 39,332 |

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

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2013

The District of Port Hardy was incorporated in 1966 under the provisions of the British Columbia Municipal Act. Its principal activities are the provision of local government services to the residents of the Municipality. These services include general government administration, bylaw enforcement, planning and land use, building inspection, fire protection, parks and recreation, water distribution and sewer collection, wastewater disposal, garbage and recycling services and road and street maintenance.

1. Significant Accounting Policies:

a) Basis of Presentation

The District of Port Hardy follows accounting principles accepted for British Columbia municipalities and applies these principles consistently. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). The consolidated financial statements reflect the combined results and activities of the reporting entity which is comprised of the General, Water and Sewer, Operating, Capital and Reserve funds. Inter-fund transactions have been eliminated on consolidation.

b) Revenue Recognition

Sources of revenue are recorded on the accrual basis and include revenue in the period in which the transaction or events occurred. Taxation revenues are recognized at the time of issuing the property tax notices for the fiscal year. Sale of services and user fee revenues are recognized when the service or product is rendered by the District. Development contributions are recorded as contributed tangible capital assets at their fair value on the date of contribution. Amounts received from non-government sources in advance of services being rendered are recorded as deferred revenue until the obligations that led to the collection of funds has been discharged. The District recognizes a government transfer as revenue when the transfer is authorized and all eligibility criteria, if any, have been met. A government transfer with stipulations giving rise to an obligation that meets the definition of a liability is recognized as a liability. In such circumstances, the District recognizes revenue as the liability is settled. Transfers of non-depreciable assets are recognized in revenue when received or receivable. Income from investment in government business enterprises is recognized based on the annual earnings of the enterprises (see Note 19).

c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method. Inventory held for resale which includes property and chattels is recorded as accrued property tax revenue, interest, penalties, cost of chattels and carrying costs less a provision for potential shortfall of proceeds from a sale or conversion. Inventory for resale is recorded at lower of cost or net realizable value as a financial asset. Inventory of supplies is recorded at the lower of cost or net realizable value as a non-financial asset.

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

1. Significant Accounting Policies Continued:

e) Leases

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 related payments are charged to expenses as incurred.

f) Financial Instruments

The Municipality's financial instruments consist of cash and cash equivalents, accounts receivable, loan receivable, accounts payable and other liabilities, performance deposit and bonds and long-term debt. It is management's opinion that the Municipality is not exposed to significant interest, currency or credit risk arising from these financial instruments.

g) Accrued Employee Benefits

Accrued employee benefits include an allowance for sick leave, vacation and severance benefits. These benefits are based on obligations as determined by collective agreements and contractual arrangements. Allowances for sick leave and vacation entitlement are recorded in the year in which they are earned. Severance benefits are recorded in the year in which they are earned. For union employees, 1 week is earned for each year of employment, to a maximum of 10 or 12 weeks depending on the union. Non-union employees earn severance in accordance with individual contracts or the BC labour standards. The severance banks are then multiplied by 10% for senior management and 2% for all other employees to estimate the potential for the District paying out severance.

h) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Significant areas requiring estimates include the determination of collectability of accounts receivable, accrued payroll liabilities, tangible capital assets and provisions for contingencies. Accounts receivable are stated after evaluation of their collectability. Amortization is based on the estimated useful lives of tangible capital assets. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

1. Significant Accounting Policies Continued:

i) Tangible Capital Assets

Tangible capital assets are recorded at cost, net of disposals, write-downs and amortization. Tangible capital asset expenditures exceeding the thresholds per major category are capitalized. The average useful life is applied straight line to calculate amortization. Amortization is taken at one-half of the calculated amount in the year of acquisition and/or disposal.

| | Average Useful Life |
|-------------------------------|----------------------------|
| Land | Indefinite |
| Land Improvements | 10-40 years |
| Buildings | 20-80 years |
| Equipment | 5-25 years |
| Engineering Structures | |
| Roads | 10-60 years |
| Water | 8-100 years |
| Sewer | 8-100 years |

Carrying costs directly attributable to the acquisition, construction or development activity are capitalized to the point in time the asset is substantially complete and ready for use. Contributed tangible capital assets are recorded at their fair value on the date of contribution. Assets under construction are not amortized until the asset is in use.

j) Recent Accounting Pronouncements

In June 2010, the Public Sector Accounting Board issued PS 3260 Liability for contaminated sites to establish recognition, measurement and disclosure standards for liabilities associated with the remediation of contaminated sites. The new section defines activities included in a liability for remediation, establishes when to recognize and how to measure a liability for remediation, and provides the related financial statement presentation and disclosure requirements. PS 3260 is effective for fiscal years beginning on or after April 1, 2014. The District has not yet determined the effect of the new section on its consolidated financial statements.

2. Cash and cash equivalents

| | 2013 | 2012 |
|----------------------|----------------------------|----------------------------|
| General revenue fund | \$ 3,101,852 | \$ 2,064,372 |
| Reserve accounts | 11,718 | 11,591 |
| | <u>\$ 3,113,570</u> | <u>\$ 2,075,963</u> |

The above balances include Municipal Finance Authority money market account \$2,719,233 (2012 - \$1,663,769), carried at cost, which is also equal to market value.

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

3. Accounts Receivable

| | 2013 | 2012 |
|--------------------------------------|---------------------|---------------------|
| Property taxes | \$ 652,054 | \$ 798,779 |
| Other Governments | 587,183 | 1,844,611 |
| Trade and other | 974,237 | 1,046,368 |
| | <u>2,213,474</u> | <u>3,689,758</u> |
| Less allowance for doubtful accounts | <u>(251,176)</u> | <u>(244,101)</u> |
| | <u>\$ 1,962,298</u> | <u>\$ 3,445,657</u> |

4. Accounts Payable and other liabilities

| | 2013 | 2012 |
|----------------------------|-------------------|-------------------|
| Other Governments | \$ 64,185 | \$ 125,839 |
| Accrued wages and benefits | 289,435 | 227,181 |
| Trade and other | 514,018 | 411,137 |
| | <u>\$ 867,638</u> | <u>\$ 764,157</u> |

5. Performance deposits and bonds

| | 2013 | 2012 |
|----------------------|------------------|------------------|
| Performance deposits | \$ 10,000 | \$ 10,000 |
| Other deposits | 4,900 | - |
| | <u>\$ 14,900</u> | <u>\$ 10,000</u> |

6. Deferred Revenue

| | 2013 | 2012 |
|---------------------------|-------------------|-------------------|
| Prepaid taxes | \$ 37,400 | \$ 26,668 |
| Prepaid fees and charges | 51,616 | 49,576 |
| Federal gas tax and other | 596,643 | 816,713 |
| | <u>\$ 685,659</u> | <u>\$ 892,957</u> |

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

7. Federal Gas Tax Funds

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

| | 2013 | 2012 |
|---|--------------------------|--------------------------|
| Opening balance of unspent funds | \$ 518,227 | \$ 369,160 |
| Add: Amount received during the year | 204,000 | 204,071 |
| Interest earned | 5,367 | 4,996 |
| Less: Amount spent on eligible projects | <u>(215,477)</u> | <u>(60,000)</u> |
| Closing balance of unspent funds | <u>\$ 512,117</u> | <u>\$ 518,227</u> |

8. Capital Leases

The Municipality leases fire and rescue equipment and a water system under capital leases. The economic substance of the leases is that the Municipality is financing the acquisition of the assets through the leases and accordingly, they are recorded in the Municipality's tangible capital assets and liabilities. (Note 10)

Future minimum lease payments under the capital leases together with the balance of the obligations due:

| | |
|------------------------------------|--------------------------|
| 2014 | \$ 352,500 |
| 2015 | 496,645 |
| 2016 | 37,335 |
| 2017 | 21,270 |
| 2018 | <u>10,039</u> |
| Total minimum lease payments | 917,789 |
| Less: amount representing interest | <u>(20,184)</u> |
| Obligations under capital lease | <u>\$ 897,605</u> |

Total interest expense during the year was \$20,184 (2012 \$23,593) and interest rates were constant at 2.00% (1.25% to 5.25% in 2012).

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

9. Long-Term Debt

| | Balance, Beginning of year | Additions | Principal repayments and actuarial recognized | Balance, end of year |
|-------------------|----------------------------------|-----------|---|-------------------------|
| Sewer Fund | | | | |
| Long-term debt | \$ 1,097,739 | \$ - | \$ (202,673) | \$ 895,066 |

The following represents the principal repayments over the next four years: The loan will be repaid in 2017.

| | |
|------|-------------------|
| 2014 | \$ 166,582 |
| 2015 | 166,582 |
| 2016 | 166,582 |
| 2017 | 166,582 |
| | <u>\$ 666,328</u> |

This long-term debt is payable to the Municipal Finance Authority (MFA). The debt is repayable at \$166,582 plus interest (4.82%) per year.

10. Tangible Capital Assets (Schedule 2)

| | | |
|--------------------------------|----------------------|----------------------|
| Land and Improvements | \$ 4,999,105 | \$ 4,278,558 |
| Buildings | 3,847,743 | 3,920,054 |
| Furniture and Equipment | 2,871 | 2,871 |
| Vehicles and Machinery | 1,484,688 | 1,578,684 |
| Computer Hardware and Software | 17,313 | 22,260 |
| Engineering Structures | | |
| Roads | 13,243,444 | 13,394,252 |
| Water | 6,705,510 | 7,018,443 |
| Sewer | 10,709,106 | 11,083,156 |
| | <u>\$ 41,009,780</u> | <u>\$ 41,298,278</u> |

The cost of capital assets under construction in 2013 is \$NIL (\$645,478 in 2012).

The net book value of leased assets in 2013 is \$1,385,877 (\$1,385,257 in 2012)

Tangible capital assets include land under the District's roads, which is disclosed at a nominal amount. Art and historic treasures are displayed at various District facilities and consist of painting, historical photographs, sculptures, carvings and other cultural artifacts. These items have not been included in tangible capital assets due to the inability of estimating future benefits associated with such property.

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2013

11. Pension Liability

The Municipality and its employees contribute to the Municipal Pension Plan (Plan), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 179,000 active members and approximately 71,000 retired members. Active members include approximately 33 contributors from the District of Port Hardy.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1.370 billion funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

The District of Port Hardy paid \$129,018 (2012-\$115,637) for employer contributions while employees contributed \$112,937 (2012-\$92,773) to the plan in fiscal 2013.

12. Budget Figures

The budget amounts presented throughout these financial statements are based on the Five Year Financial Plan bylaw adopted by Council on April 23, 2013, except in regard to budget amounts for amortization and tangible capital assets.

| | |
|---|--------------------|
| Annual surplus, as adopted April 23, 2013 | \$nil |
| Add: | |
| Aquisition of tangible capital assets | \$ 1,755,578 |
| Debenture principal repayments | 496,019 |
| Less: | |
| Debenture debt issue | (190,000) |
| Interfund transfers | <u>(1,983,032)</u> |
| Annual surplus restated | \$ 78,565 |

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2013

13. Collections for Other Governments

The District is required to collect taxes on behalf of and transfer these amounts to the governments and/or its agencies noted below. These sums are not included in the schedules to these statements.

| | 2013 | 2012 |
|---|---------------------|---------------------|
| School District 85 | \$ 1,398,361 | \$ 1,344,864 |
| Mount Waddington Regional District | 446,749 | 449,623 |
| Mount Waddington Regional Hospital District | 147,572 | 148,118 |
| B.C. Assessment Authority | 28,320 | 28,096 |
| Municipal Finance Authority | 86 | 85 |
| Provincial Government - Police Tax | 171,839 | 157,102 |
| Vancouver Island Regional Library | 124,568 | 118,704 |
| | <u>\$ 2,317,495</u> | <u>\$ 2,246,592</u> |

14. Trust Funds

The District operates the cemetery and maintains a cemetery perpetual care fund in accordance with the Cremation, Interment and Funeral Services Act. The trust fund assets and liabilities are not included in the consolidated financial statements. At December 31, 2013, the balance of funds held in trust was \$29,753 (2012 - \$29,753).

The District operates the Fisherman's Wharf for the Department of Fisheries and Oceans and acts as project manager for the capital items constructed. The assets and liabilities of the operations are not included in the consolidated financial statements.

15. Payroll Benefits

Full-time permanent employees receive their full sick bank up to 60 days upon retirement or one third upon termination. There are no additional liabilities accrued for these amounts as they are included in the sick leave and vacation liability accounts. Specified officers of the District are entitled to severance benefits. This liability is recorded as the severance benefits are negotiated. The reported liability reflects the likelihood that employees will become eligible for this benefit.

Vacation liability at December 31, 2013 is \$30,926 (2012 - \$20,964).

Sick leave liability at December 31, 2013 is \$96,493 (2012 - \$95,566).

Severance liability at December 31, 2013 is \$34,356 (2012 - \$28,258).

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

16. Commitments and Contingencies

a) Municipal Insurance Association of British Columbia

The District is a subscribed member of the Municipal Insurance Association of British Columbia as provided by section 3.02 of the Insurance Act of the Province of British Columbia (the Exchange"). The main purpose of the Exchange is to pool the risks of liability so as to lessen the impact upon any subscriber. Under the Reciprocal Insurance Exchange Agreement, the District is assessed a premium and a specific deductible for claims is based on population. The obligation of the District with respect to the Exchange and/or contract and obligation entered into by the Exchange on behalf of its subscribers in connection with the Exchange are in every case several, not joint and several. The District irrevocably and unconditionally undertakes and agrees to indemnify and save harmless the other subscribers against liability losses and costs which the other subscriber may suffer.

b) Legal Actions

Each year the District is involved in certain legal actions. Financial implications of potential claims against the District, resulting from such litigation and not covered by insurance, are accrued to the extent that amounts can be reasonably estimated. Otherwise, such claims are recognized in the year in which a definitive obligation is determined.

c) Mount Waddington Regional District

The District is responsible, as a member of the Mount Waddington Regional District, for its portion of any operating deficits or long-term debt related function in which it participates.

17. Deposit and Reserve - Municipal Finance Authority

The District issues certain of its debt instruments through the Municipal Finance Authority of British Columbia (the Authority). As a condition of these borrowings and as required by legislation, a debt reserve fund is to be established in the amount of one-half the average annual installment of principal and interest as set out in the agreement(s) entered into. The reserve is funded in part by cash, being the withholding of 1% of the total issue proceeds, and the remainder being funded by a demand note whereby the District may be required to loan certain amounts to the Municipal Finance Authority. These demand notes are contingent in nature and are not reflected in the accounts of the District.

Details of the cash deposits on hand are:

| | <u>2013</u> | <u>2012</u> |
|-------------------|-------------|-------------|
| Sewer Fund | | |
| Cash Deposits | \$ 23,732 | \$ 22,277 |

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

18. Segmented Information

For management reporting purposes the District's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulation, restriction or limitations. District services are provided by departments and their activities are reported in the funds. Certain departments that have been separately disclosed in the segmented information on Schedule 1, along with the services they provide, are as follows:

Protection

Protection is comprised of the Volunteer Fire Department, the Emergency Preparedness coordinator, building inspection and bylaw enforcement.

Community Development

The Community development department provides economic development services. These services consist of downtown revitalization, grant proposals and new business and development.

Recreation & Culture

The Recreation and Culture department provides recreation and leisure services such as fitness and aquatic programs, the library and the museum.

Waste Management

This service is for the collection and disposal of solid waste and recycling program.

Public Works

The Public Works department delivers the municipal services related to maintenance of the roads, sidewalks, parks, open space, street lighting and storm drains.

General Government

Provide services related to corporate and legislative administration, governance, financial management, human resources and information technology.

Water

The water department is responsible for the water treatment plant and distribution system.

Sewer

The waste water department is responsible for the treatment and collection system for waste water.

For each reported segment, revenues and expenses represent amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The General Revenue Fund reports on municipal services that are funded by taxation. The taxes are apportioned to the fund services based on the net surplus.

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

19. Investment in Government Business Enterprises

The investment in the North Island Community Forest Limited Partnership (NICFLP) is reported as a government business partnership and North Island Community Forest Ltd. (NICF LTD) as a government business enterprise. These businesses are accounted for using the modified equity method. Under this method, the government businesses' accounting principles are not adjusted to conform with those of the District and inter-corporate transactions are not eliminated.

As a government business partnership, the NICFLP is required to report under International Financial Reporting Standards (IFRS). In the prior and current year, the NICFLP financial statements have not been audited or reviewed, therefore they were not prepared in accordance with IFRS. Any difference between the accounting standards used and IFRS would likely be insignificant.

| | 2013 Unaudited | 2012 Unaudited |
|--|-------------------|-------------------|
| Summary of investment in Government Businesses | | |
| NICFLP | \$ 234,245 | \$ 45,295 |
| NICF LTD. | 3,327 | 407 |
| | <u>237,572</u> | <u>45,702</u> |
| Summary of results of operations | | |
| NICFLP | 288,951 | 61,618 |
| NICF LTD. | 2,919 | 622 |
| | <u>\$ 291,870</u> | <u>\$ 62,240</u> |

The condensed supplementary financial information of the NICFLP is as follows:

| | 2013 Unaudited | 2012 Unaudited |
|-------------------------------|--------------------------|--------------------------|
| Financial Position | | |
| Current and other assets | \$ 723,492 | \$ 276,673 |
| Current and other liabilities | 10,729 | 139,520 |
| Partners' capital | <u>712,763</u> | <u>137,153</u> |
| Net assets | <u>723,492</u> | <u>276,673</u> |
| Results of operations | | |
| Revenues | 919,848 | 203,525 |
| Expenses | <u>44,239</u> | <u>16,804</u> |
| Net surplus/(loss) | <u>\$ 875,609</u> | <u>\$ 186,721</u> |

In 2011 the District loaned the North Island Community Forest Limited Partnership (NICFLP) \$38,333. The loan is unsecured, non-interest bearing and due on or before December 31, 2015. Loan balance 2013 is NIL. (2012

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013

19. Investment in Government Business Enterprises Continued

\$38,333). During the year the District received a dividend from the NICFLP of \$100,000.

20. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

21. Capital Borrowing

Short term financing is secured through the Municipal Finance Authority for capital initiatives approved under loan authorizations. Interest is calculated daily on a variable rate basis at prime less 1.28%. In 2013 the rate was 1.72%. Short term borrowing is replaced by long term debt periodically when balances and interest rates are considered inappropriate.

District of Port Hardy

Consolidated Schedule of Segmented Disclosure

For the Year Ended December 31, 2013

Schedule 1
(Note 18)

| | General government services | | | Transportation services | | | Protective services | | | Environmental health services | | | Recreation & Culture | | |
|---|-----------------------------|--------------|--------------|-------------------------|--------------|--------------|---------------------|-----------|----------------|-------------------------------|------|------|----------------------|------|------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| Revenues | | | | | | | | | | | | | | | |
| Taxes | \$ 2,295,127 | \$ 2,217,105 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Payments in lieu of taxes | 163,888 | 156,649 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sale of service | - | - | 323,210 | 290,565 | 37,008 | 35,083 | 273,008 | 273,273 | 209,436 | 212,509 | | | | | |
| Income from investment in Government business enterprises | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Government transfers from other governments | 340,017 | 727,501 | 312,321 | 644,935 | 123,921 | 57,665 | - | - | - | - | - | - | - | - | - |
| Development contributions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Actuarial recognized | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other revenue | 152,912 | 285,186 | 30,309 | 35,776 | 66,939 | 32,238 | 3,201 | 3,164 | 34,553 | 33,876 | | | | | |
| Expenses | | | | | | | | | | | | | | | |
| Salaries and benefits | 2,951,944 | 3,386,441 | 665,840 | 971,276 | 227,868 | 124,986 | 276,209 | 276,437 | 243,989 | 246,385 | | | | | |
| Goods and services | 727,551 | 848,238 | 440,398 | 404,629 | 123,260 | 111,084 | 20,596 | 12,886 | 605,688 | 613,528 | | | | | |
| Contracted services | 122,095 | 166,487 | 310,285 | 327,905 | 169,483 | 157,824 | 29,791 | 27,012 | 337,585 | 334,890 | | | | | |
| Interest | 34,735 | 49,635 | 260,063 | 256,927 | 78,284 | 79,103 | 223,603 | 223,115 | 80,899 | 98,460 | | | | | |
| Amortization | 6,361 | 10,811 | - | - | - | - | - | - | - | - | | | | | |
| | 35,953 | 39,111 | 635,722 | 600,134 | 86,252 | 87,326 | - | - | 250,180 | 215,900 | | | | | |
| | 926,695 | 1,114,282 | 1,646,468 | 1,589,595 | 457,279 | 435,337 | 273,990 | 263,013 | 1,274,352 | 1,262,778 | | | | | |
| Net Surplus (Deficit) | \$ 2,025,249 | \$ 2,272,159 | \$ (980,628) | \$ (618,319) | \$ (229,411) | \$ (310,351) | \$ 2,219 | \$ 13,424 | \$ (1,030,363) | \$ (1,016,393) | | | | | |

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

District of Port Hardy

Consolidated Schedule of Segmented Disclosure

For the Year Ended December 31, 2013

Schedule 1

| | Community development | | | Water | | | Sewer | | | Consolidated | | Budget | | | | | |
|---|-----------------------|-----------|--------------|-----------|--------------|------------|-----------|------------|-----------|--------------|------------|------------|------------|------------|------------|------------|------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | Unaudited | |
| Revenues | | | | | | | | | | | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Payments in lieu of taxes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sale of service | - | - | 1,329,463 | 1,341,582 | 1,174,163 | 1,084,737 | 3,346,288 | 3,237,749 | 3,211,231 | 3,237,749 | 3,165,173 | 3,237,749 | 3,165,173 | 3,237,749 | 3,165,173 | 3,165,173 | 3,165,173 |
| Income from investment in Government business enterprises | 291,870 | 62,240 | - | - | - | - | 291,870 | - | - | 62,240 | - | - | - | 62,240 | - | - | - |
| Government transfers from other governments | 446,834 | 188,316 | - | 60,000 | 16,344 | 26,383 | 1,239,437 | 1,704,800 | 1,474,520 | 1,704,800 | 1,610,266 | 1,704,800 | 1,610,266 | 1,704,800 | 1,610,266 | 1,610,266 | 1,610,266 |
| Development contributions | - | - | - | - | - | 645,225 | - | - | - | 645,225 | - | - | - | 645,225 | - | - | 645,225 |
| Actuarial recognized | - | - | - | - | 36,090 | 28,295 | 36,090 | - | - | 28,295 | - | - | - | 28,295 | - | - | 28,295 |
| Other revenue | 31,401 | 31,048 | 18,850 | 12,772 | 13,728 | 13,125 | 351,893 | 447,185 | 306,307 | 447,185 | 265,323 | 447,185 | 265,323 | 447,185 | 265,323 | 265,323 | 265,323 |
| | 770,105 | 281,604 | 1,348,313 | 1,414,354 | 1,240,325 | 1,797,765 | 7,724,593 | 8,499,248 | 7,449,403 | 8,499,248 | 8,101,787 | 8,499,248 | 8,101,787 | 8,499,248 | 8,101,787 | 8,101,787 | 8,101,787 |
| Expenses | | | | | | | | | | | | | | | | | |
| Salaries and benefits | 56,906 | 56,090 | 114,761 | 7,999 | 60,191 | 2,303 | 2,149,351 | 2,056,757 | 2,150,000 | 2,056,757 | 1,783,484 | 2,056,757 | 1,783,484 | 2,056,757 | 1,783,484 | 1,783,484 | 1,783,484 |
| Goods and services | 28,459 | 45,422 | 215,504 | 98,526 | 187,925 | 117,722 | 1,401,127 | 1,275,788 | 1,350,000 | 1,275,788 | 1,257,817 | 1,275,788 | 1,257,817 | 1,275,788 | 1,257,817 | 1,257,817 | 1,257,817 |
| Contracted services | 85,663 | 114,120 | 863,904 | 858,265 | 610,209 | 772,645 | 2,237,360 | 2,452,270 | 2,212,668 | 2,452,270 | 2,451,199 | 2,452,270 | 2,451,199 | 2,452,270 | 2,451,199 | 2,451,199 | 2,451,199 |
| Interest | - | - | 13,179 | 16,945 | 132,490 | 124,695 | 152,030 | 152,451 | 138,170 | 152,451 | 123,519 | 152,451 | 123,519 | 152,451 | 123,519 | 123,519 | 123,519 |
| Amortization | - | - | 351,841 | 350,734 | 422,929 | 394,151 | 1,782,877 | 1,687,356 | 1,520,000 | 1,687,356 | 1,687,356 | 1,687,356 | 1,687,356 | 1,687,356 | 1,687,356 | 1,687,356 | 1,687,356 |
| | 171,028 | 215,632 | 1,559,189 | 1,332,469 | 1,413,744 | 1,411,516 | 7,722,745 | 7,624,622 | 7,370,838 | 7,624,622 | 7,303,375 | 7,624,622 | 7,303,375 | 7,624,622 | 7,303,375 | 7,303,375 | 7,303,375 |
| Net Surplus (Deficit) | \$ 599,077 | \$ 65,972 | \$ (210,876) | \$ 81,885 | \$ (173,419) | \$ 386,249 | \$ 1,848 | \$ 874,626 | \$ 78,565 | \$ 874,626 | \$ 798,412 | \$ 874,626 | \$ 798,412 | \$ 874,626 | \$ 798,412 | \$ 798,412 | \$ 798,412 |

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

District of Port Hardy
Consolidated Statement of Tangible Capital Assets
For the Year Ended December 31, 2013

Schedule 2

| | Costs | | | | | | | | | | Accumulated Amortization | | | | |
|--------------------------------|-----------------|--------------|------|--------------------------|-----------|---------------|---------------|-----------------|-----------------|---------------|--------------------------|---------------|-----------------|---------------|------|
| | Opening Balance | Additions | Add | Construction in progress | Less | | | Closing Balance | Opening Balance | Amortization | Add | Less | Closing Balance | 2013 | 2012 |
| | | | | | Disposals | Disposals | Disposals | | | | | | | | |
| Land and Land Improvements | \$ 5,757,239 | \$ 890,947 | \$ - | \$ - | \$ - | \$ 6,648,186 | \$ 1,478,681 | \$ 170,400 | \$ - | \$ 1,649,081 | \$ 4,999,105 | \$ 4,278,558 | \$ 4,999,105 | \$ 4,278,558 | |
| Buildings | 9,612,904 | 161,988 | - | - | - | 9,774,892 | 5,692,850 | 234,299 | - | 5,927,149 | 3,847,743 | 3,920,054 | 3,847,743 | 3,920,054 | |
| Furniture and Equipment | 397,093 | - | - | - | - | 397,093 | 394,222 | - | - | 394,222 | 2,871 | 2,871 | 2,871 | 2,871 | |
| Vehicles and Machinery | 3,745,150 | 81,823 | - | - | - | 3,826,973 | 2,166,466 | 175,819 | - | 2,342,285 | 1,484,688 | 1,578,684 | 1,484,688 | 1,578,684 | |
| Computer Hardware and Software | 159,982 | - | - | - | - | 159,982 | 137,722 | 4,947 | - | 142,669 | 17,313 | 22,260 | 17,313 | 22,260 | |
| Engineering Structures | | | | | | | | | | | | | | | |
| Roads | 24,180,671 | 271,835 | - | - | - | 24,452,506 | 10,786,419 | 422,643 | - | 11,209,062 | 13,243,444 | 13,394,252 | 13,243,444 | 13,394,252 | |
| Water | 13,048,951 | 52,272 | - | (13,365) | - | 13,087,858 | 6,030,508 | 351,840 | - | 6,382,348 | 6,705,510 | 7,018,443 | 6,705,510 | 7,018,443 | |
| Sewer | 16,141,480 | 48,878 | - | - | - | 16,190,358 | 5,058,324 | 422,928 | - | 5,481,252 | 10,709,106 | 11,083,156 | 10,709,106 | 11,083,156 | |
| | \$ 73,043,470 | \$ 1,507,743 | \$ - | \$ (13,365) | \$ - | \$ 74,537,848 | \$ 31,745,192 | \$ 1,782,876 | \$ - | \$ 33,528,068 | \$ 41,009,780 | \$ 41,298,278 | \$ 41,009,780 | \$ 41,298,278 | |

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

District of Port Hardy
Consolidated Statement of Accumulated Surplus
For the Year Ended December 31, 2013

Schedule 3

| | 2013 | 2012 |
|---|-----------------------------|-----------------------------|
| Surplus | | |
| Invested in tangible capital assets | \$ 39,137,109 | \$ 39,102,820 |
| Operating funds | 2,677,108 | 2,637,428 |
| | <u>41,814,217</u> | <u>41,740,248</u> |
| Reserves | | |
| Buildings | 135,984 | 134,509 |
| Computers | 20,523 | 20,301 |
| Equipment replacement | 204,802 | 202,580 |
| General capital works | 187,964 | 210,789 |
| Park development | 38,102 | 37,689 |
| Recreation facilities | 76,246 | 137,080 |
| Sidewalks and roads | 177,690 | 175,762 |
| Tax sale | 16,825 | 16,642 |
| | <u>858,136</u> | <u>935,352</u> |
| Water Reserve Fund | | |
| Water capital works | 159,051 | 157,326 |
| Sewer Reserve Fund | | |
| Sewer capital works | 310,775 | 307,405 |
| | <u>1,327,962</u> | <u>1,400,083</u> |
| Accumulated Surplus, end of year | <u><u>\$ 43,142,179</u></u> | <u><u>\$ 43,140,331</u></u> |

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