

**DISTRICT OF PORT HARDY
Consolidated
Financial Statements**

December 31, 2011





THE DISTRICT OF PORT HARDY

2011 ELECTED OFFICIALS

Mayor B. Parnham

Councillor J. Dorward
Councillor J. Hemphill
Councillor A. Huddleston

Councillor R. Marcotte
Councillor N. Shaw
Councillor J. Tidbury

DISTRICT OFFICIALS

Chief Administrative Officer
Director of Financial Services
Director of Corporate Services
Royal Canadian Mounted Police
Fire Chief

R. Davidge
D. Clipperton
G. Le Gal
Staff Sgt. A. Mallard
S. Nickerson

MUNICIPAL AUDITORS

Meyers Norris Penny LLP

BANKERS

Bank of Nova Scotia

DISTRICT OF PORT HARDY
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For the year ended December 31, 2011

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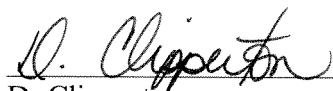
Schedule 1	Consolidated Schedule of Segmented Disclosure
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The accompanying financial statements are the responsibility of management. To ensure their integrity, objectivity and reliability, the statements have been prepared in accordance with the recommendations 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.

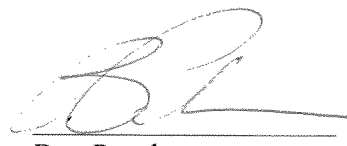
Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly.

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 internal financial statements on a monthly basis and external Audited Financial Statements yearly.

The external auditors, Meyers Norris Penny LLP, are appointed by Council to conduct an independent examination in accordance with generally accepted 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.



D. Clipperton
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, 2011 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the District as at December 31, 2011, 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

MNP LLP

Chartered Accountants

May 22, 2012



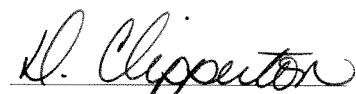
ACCOUNTING > CONSULTING > TAX

201, 990 CEDAR STREET, CAMPBELL RIVER, BC V9W 7Z8
1.800.450.9977 P: 250.287.2131 F: 250.287.2134 mnp.ca

DISTRICT OF PORT HARDY
Consolidated Statement of Financial Position
As at December 31, 2011

	2011	2010
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 1,008,248	\$ 356,250
Accounts receivable (Note 3)	4,172,456	6,635,281
Loan receivable (Note 20)	38,333	-
Tax sale properties	78,946	5,822
Land held for resale	506	506
	<u>5,298,489</u>	<u>6,997,859</u>
Financial Liabilities		
Accounts payable and other liabilities (Note 4)	730,088	2,064,988
Tax sale properties deposits	56,647	20,414
Performance deposits and bonds (Note 5)	18,500	303,326
Deficit in Government business enterprise (Note 20)	16,538	-
Deferred revenue (Note 6)	530,913	480,095
Capital leases (Note 8)	1,377,593	960,831
Long-term debt (Note 9)	1,292,616	1,479,998
	<u>4,022,895</u>	<u>5,309,652</u>
Net Financial Assets	1,275,594	1,688,207
Non-financial Assets		
Tangible capital assets (Note 10)	40,892,777	38,491,144
Inventory	81,344	88,669
Prepays	15,990	14,960
	<u>40,990,111</u>	<u>38,594,773</u>
Accumulated Surplus (Schedule 3)	<u>\$ 42,265,705</u>	<u>\$ 40,282,980</u>

Commitments and Contingencies (Note 17)



D. Clipperton
 Director of Financial Services

Consolidated Statement of Operations
For the Year Ended December 31, 2011

	(Note 13)		
	2011	2011	2010
	Actual	Budget	Actual
		Unaudited	
Revenue			
Taxes	\$ 2,236,667	\$ 2,218,882	\$ 2,149,268
Payments in lieu of taxes	147,034	151,956	143,367
Sewer user rates	938,523	1,022,280	895,435
Water user rates	1,222,373	1,374,300	1,241,915
Sale of services	1,480,125	1,259,007	1,099,623
Other revenue	413,120	298,938	359,587
Development contributions	1,213,698	3,015,500	574,750
Transfers from other governments	1,789,836	1,661,628	6,559,462
	<u>9,441,376</u>	<u>11,002,491</u>	<u>13,023,407</u>
Expenses			
General government services	940,579	866,114	864,643
Transportation services	1,568,976	1,560,086	1,277,462
Protective services	582,576	412,421	770,934
Environmental health services	246,608	219,261	238,135
Recreation services	1,233,330	1,236,131	1,202,041
Community development	209,963	280,619	242,711
Loss on investment in Government business enterprises (Note 20)	16,538	-	-
Water utility	1,301,013	1,267,675	1,255,252
Sewer utility	1,359,068	1,336,780	1,279,856
	<u>7,458,651</u>	<u>7,179,087</u>	<u>7,131,034</u>
Annual Surplus	<u>\$ 1,982,725</u>	<u>\$ 3,823,404</u>	<u>\$ 5,892,373</u>
Accumulated surplus at beginning of year	40,282,980	\$ 40,282,980	34,390,607
Accumulated surplus end of year	<u>\$ 42,265,705</u>	<u>\$ 44,106,384</u>	<u>\$ 40,282,980</u>

DISTRICT OF PORT HARDY
Consolidated Statement of Change in Net Financial Assets
As at December 31, 2011

	2011	(Note 13) Budget Unaudited 2011	2010
Annual Surplus	\$ 1,982,725	\$ 3,823,404	\$ 5,892,373
Acquisition of tangible capital assets	(2,723,521)	(2,469,700)	(7,472,284)
Amortization of tangible capital assets	1,509,655	1,470,000	1,347,962
Gain/loss on sale of tangible capital assets	20,910	-	-
Proceeds on sale of tangible capital assets	5,021	-	-
Development tangible capital asset contribution	(1,213,698)	(3,015,500)	(574,750)
	<u>(2,401,633)</u>	<u>(4,015,200)</u>	<u>(6,699,072)</u>
Acquisition of supplies inventories	-	-	(15,157)
Acquisition of prepaid expense	(15,990)	-	(14,960)
Consumption of supplies inventories	7,325	-	22,731
Use of prepaid expense	14,960	-	5,255
	<u>6,295</u>	<u>-</u>	<u>(2,131)</u>
Change in net financial assets	(412,613)	(191,796)	(808,830)
Net financial assets beginning of year	1,688,207	1,688,207	2,497,037
Net financial assets end of year	<u>\$ 1,275,594</u>	<u>\$ 1,496,411</u>	<u>\$ 1,688,207</u>

DISTRICT OF PORT HARDY
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2011

Statement D

	2011	2010
Cash Provided By (Used In)		
Operating Activities		
Annual Surplus	\$ 1,982,725	\$ 5,892,373
Increase (Decrease) in Non Financial Assets		
Amortization	1,509,655	1,347,960
Gain on disposal of assets	(40,000)	(3,000)
Loss on disposal of assets	20,910	-
Developer tangible capital asset contribution	(1,213,698)	-
Change in inventory	7,325	7,574
Change in operating lease to capital lease	-	13,444
Change in prepaids	(1,030)	(9,705)
	<u>2,265,887</u>	<u>7,248,646</u>
(Increase) Decrease in Financial Assets and Liabilities		
Change in accounts receivable	2,462,825	(5,077,766)
Change in loan receivable	(38,333)	-
Change in accounts payable	(1,334,901)	1,234,566
Change in tax sale properties	(73,124)	126,447
Change in tax sale deposits	36,233	(207,226)
Change in performance deposits and bonds	(284,826)	293,326
Change in Government business enterprise	16,538	-
Change in actuarial	(20,800)	(13,593)
Change in deferred revenue	50,818	(778,080)
Cash provided by operating transactions	<u>3,080,317</u>	<u>2,826,320</u>
Capital Activities		
Acquisition of tangible capital assets	(1,993,509)	(8,057,476)
Proceeds on sale of tangible capital assets	5,021	-
	<u>(1,988,488)</u>	<u>(8,057,476)</u>
Financing Activities		
Capital lease repaid	(273,249)	(167,723)
Debenture debt repaid	(166,582)	(166,582)
	<u>(439,831)</u>	<u>(334,305)</u>
Net increase (decrease) in cash position	651,998	(5,565,461)
Cash, beginning of year	356,250	5,921,711
Cash, end of year	<u>\$ 1,008,248</u>	<u>\$ 356,250</u>
Represented by		
Cash	\$ 157,143	\$ 164,435
Investments	851,105	191,815
	<u>\$ 1,008,248</u>	<u>\$ 356,250</u>
Supplemental information		
Interest paid	\$ 140,905	\$ 111,469
Interest received	\$ 20,595	\$ 47,225

The accompanying notes and schedules are an integral part of these financial statements

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

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, by-law 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. Capital grants and developer contributions are recognized when the related expenditure is incurred. Amounts received in advance of services being rendered are recorded as deferred revenue until the obligations that led to the collection of funds has been discharged.

c) **Inventory**

Inventory held for resale which includes property and chattels are recorded at 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 are recorded at the lower of cost or net realizable value as a non-financial asset.

d) **Financial Instruments**

The Municipality's financial instruments consist of cash, cash equivalents, accounts receivable, loan receivable, accounts payable, 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.

e) **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 the benefits are negotiated.

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

f) **Use of Estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

g) **Tangible Capital Assets**

Tangible capital assets are recorded at cost, net of disposals, write-downs and amortization. Tangible capital asset expenses 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.

<u>Asset</u>	<u>Average Useful Life</u>
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.

h) **Recent Accounting Pronouncements**

In February 2010, the Public Sector Accounting Board (PSAB) issued PS 3510 *Tax Revenue* to provide guidance on how to account for and report tax revenue in Municipal financial statements. This section establishes recognition, measurement, presentation and disclosure requirements for tax revenue. PS 3150 is effective for fiscal years beginning on or after April 1, 2012. The District does not expect the adoption of the new section to have a material impact on its consolidated financial statements.

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.

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

In March 2011, the Public Sector Accounting Board replaced and revised existing section PS 3410 *Government Transfers* with a newly amended section PS 3410. Newly issued PS 3410 establishes standards on how to account for and report government transfers to individuals, organization and other governments from both a transferring government and a recipient government perspective. This section permits a recipient government to recognize government transfers as revenue when the transfer is authorized by the transferring government, unless the transfer creates a liability for the recipient. A liability is created as a result of the recipient government not yet meeting eligibility criteria or the existence of stipulations in the transfer agreement. When a government transfer results in recognition of a liability, revenue is recognized by a recipient government as the liability is settled. A transferring government recognizes an expense when the transfer is authorized and the recipient has met all eligibility criteria. Newly revised and issued PS 3410 may be applied prospectively or retroactively and is effective for fiscal years beginning on or after April 1, 2012; however, earlier adoption is encouraged. PS 3410 will be applied prospectively and the District does not expect the adoption of the newly issued section to have a material impact on its consolidated financial statements.

2. Cash and Investments

	<u>2011</u>	<u>2010</u>
General Revenue Fund	\$ 996,779	\$ 344,898
Reserve Accounts	11,469	11,352
	<u>\$ 1,008,248</u>	<u>\$ 356,250</u>

The above balances include Municipal Finance Authority money market account \$851,104 (2010 - \$191,815), carried at cost, which is also equal to market value.

3. Accounts Receivable

	<u>2011</u>	<u>2010</u>
Property taxes	\$ 620,281	\$ 606,786
Other Governments	2,403,059	4,882,266
Trade and other	1,435,700	1,381,233
	<u>4,459,040</u>	<u>6,870,285</u>
Less allowance for doubtful accounts	(286,584)	(235,004)
	<u>\$ 4,172,456</u>	<u>\$ 6,635,281</u>

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

4. Accounts Payable and accrued liabilities

	2011	2010
Other Governments	\$ 152,745	\$ 91,839
Accrued wages and benefits	218,377	206,148
Trade and other	358,966	1,767,001
	<u>\$ 730,088</u>	<u>\$ 2,064,988</u>

5. Performance deposits and bonds

	2011	2010
Performance deposits	\$ 10,000	\$ 10,000
Other deposits	8,500	293,326
	<u>\$ 18,500</u>	<u>\$ 303,326</u>

6. Deferred Revenue

	2011	2010
Prepaid taxes	39,640	24,823
Prepaid fees and charges	48,548	54,857
Federal gas tax and other	442,725	400,415
	<u>\$ 530,913</u>	<u>\$ 480,095</u>

7. Federal Gas and Public Transit 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.

	2011	2010
Federal Gas Tax Agreement funds		
Opening balance of unspent funds	\$ 333,973	\$ 486,151
Add: Amount received during the year	204,071	204,089
Interest earned	3,966	3,733
Less: Amount spent on eligible projects	(172,850)	(360,000)
Closing balance of unspent funds	<u>\$ 369,160</u>	<u>\$ 333,973</u>

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

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.

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

2012	359,903
2013	298,810
2014	298,810
2015	455,262
2016	11,480
Total minimum lease payments	<u>1,424,265</u>
Less: amount representing interest	<u>(46,672)</u>
Obligations under capital lease	<u><u>\$ 1,377,593</u></u>

Total interest expense during the year was \$27,980 (2010 \$16,779) and interest rates ranged from 2.75% to 5.25% (2.75% to 5.25% in 2010).

9. Long-Term Debt

	Balance, Beginning of year	Additions	Principal Repayments	Balance, end of year
Sewer Fund				
MFA issue 102	\$1,479,998	\$ -	(\$187,382)	<u><u>\$1,292,616</u></u>

The following represents the principal repayments over the next five years:

2012	\$166,582
2013	166,582
2014	166,582
2015	166,582
2016	166,582
	<u><u>\$832,910</u></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.

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

10. Tangible Capital Assets (Schedule 2)

	<u>2011</u>	<u>2010</u>
Land and Improvements	\$ 4,060,267	\$ 3,980,728
Buildings	4,134,317	4,249,992
Furniture and Equipment	25,850	47,253
Vehicles and Machinery	1,759,469	1,568,794
Computer Hardware and software	2,909	238
Engineering Structures		
Roads	13,185,009	12,048,499
Water	6,990,535	6,100,139
Sewer	10,734,421	10,495,501
	<u>\$ 40,892,777</u>	<u>\$ 38,491,144</u>

The cost of capital assets under construction in 2011 is \$4,596,254 (\$6,824,309 in 2010).

The net book value of leased assets in 2011 is \$1,154,007 (\$791,095 in 2010)

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.

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 pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 173,000 active members and approximately 63,000 retired members. Active members include approximately 35,000 contributors from local governments.

The latest valuation as at December 31, 2009 indicated an unfunded liability of \$1.024 billion for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan

The District of Port Hardy paid \$102,378 (2010-\$98,153) for employer contributions while employees contributed \$83,665 (2010 - \$77,806) to the plan in fiscal 2011.

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

12. Contractual Obligations

As a part of its ongoing operations, the Municipality is involved with projects that require it to enter into contractual obligations. At December 31, 2011, the significant obligations are:

- Payments to EPCOR Water Services Inc. for \$1,141,000 annually (with allowance for inflationary adjustments) for 17 years for water treatment/distribution and wastewater collection/treatment services beginning in 2002.

13. Budget Figures

The budget amounts presented throughout these financial statements are based on the Five Year Financial Plan bylaw adopted by Council on May 10, 2011, except in regard to budget amounts for amortization and tangible capital assets.

Adjustments to 2011- 2015 Financial Plan Annual Surplus

Annual surplus, as adopted May 10, 2011	\$ nil
Add:	
Reversal of capital asset purchases	2,469,700
Reversal of debt principal repayment	492,074
Interfund transfers	981,630
Less:	
Debenture debt issue	<u>(120,000)</u>
Annual surplus restated	<u>\$3,823,404</u>

14. 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.

	<u>2011</u>	<u>2010</u>
School District 85	\$ 1,364,597	\$ 1,344,058
Mount Waddington Regional District	431,818	389,714
Mount Waddington Regional Hospital District	148,476	125,435
B.C. Assessment Authority	29,079	29,993
Municipal Finance Authority	85	83
Provincial Government - Police Tax	156,463	146,632
	<u>\$ 2,130,518</u>	<u>\$ 2,035,915</u>

15. 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, 2011, the balance of funds held in trust was \$29,753 (2010 - \$28,961).

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

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. At December 31, 2011, the District did not hold in trust funds for DFO (2010 - \$nil).

16. 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, 2011 is \$21,820 (2010 - \$22,417).
Sick leave liability at December 31, 2011 is \$95,514 (2010 - \$82,576).
Severance liability at December 31, 2011 is \$32,963 (2010 - \$29,619).

17. Commitments and Contingencies

- a) 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.
- b) 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) 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.

18. 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 and contingent demand notes on hand are:

	Cash Deposits	Contingent Demand Notes
Sewer Fund		
2010	<u>\$22,277</u>	<u>\$111,874</u>
2011	<u>\$23,036</u>	<u>\$111,874</u>

19. 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 maintenance of the recycling depot.

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.

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

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.

20. Investment in Government Businesses

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.

The condensed supplementary financial information of The North Island Community Forest Limited Partnership is as follows:

	2011
Financial Position	
Current and other assets	<u>\$127,485</u>
Current and other liabilities	177,050
Partners' capital	<u>(49,565)</u>
Net assets	<u>\$127,485</u>
Results of Operations	
Revenues	\$ 9,678
Expenses	<u>74,293</u>
Net loss	<u>\$ (64,615)</u>

During the year the District loaned the NICFLP \$38,333. The loan is unsecured, non-interest bearing and due on or before December 31, 2015.

Summary of investment in Government Businesses	<u>2011</u>
NICFLP	\$16,323
NICF LTD.	<u>215</u>
	<u>\$16,538</u>
Summary of results of operations	
NICFLP	\$ (21,323)
NICF LTD.	(215)
Other adjustments	<u>5,000</u>
	<u><u>\$ (16,538)</u></u>

DISTRICT OF PORT HARDY
Notes to the Consolidated Financial Statements
Year Ended December 31, 2011

21. Comparative Figures

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

DISTRICT OF PORT HARDY
Consolidated Schedule of Segmented Disclosure
For the year ended December 31, 2011

Schedule 1
(Note 19)
Page 1 of 2

	General Government		Transportation Services		Protection		Environmental Health Services		Recreation and Culture	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenues										
Taxation	\$ 2,236,667	\$ 2,149,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payments in lieu of taxes	147,034	143,367	-	-	-	-	-	-	-	-
Sale of Service	-	-	234,860	233,802	34,443	47,300	269,038	252,239	207,649	195,836
Government Transfers	707,694	549,427	642,764	3,655,803	-	272,594	-	-	4,278	46,687
Development contributions	-	-	720,720	387,750	-	-	-	-	-	-
Actuarial recognized	-	-	-	-	-	-	-	-	-	-
Sundry	162,610	136,719	80,096	37,958	58,289	64,118	3,032	3,223	33,212	35,209
	<u>3,254,005</u>	<u>2,978,781</u>	<u>1,678,440</u>	<u>4,315,313</u>	<u>92,732</u>	<u>384,012</u>	<u>272,070</u>	<u>255,462</u>	<u>245,139</u>	<u>277,732</u>
Expenses										
Salaries & benefits	697,121	725,647	356,290	327,612	107,131	125,402	8,149	7,974	554,857	532,771
Goods & services	170,617	84,506	338,434	320,144	155,357	162,254	109,462	112,402	260,635	278,937
Contracted services	41,725	23,796	351,132	196,466	211,001	384,990	128,997	117,759	204,625	203,532
Interest	-	-	9,013	478	5,721	1,481	-	-	1,763	-
Loss Gov't business enterprise	-	-	-	-	-	-	-	-	-	-
Loss on disposal of assets	-	-	18,526	-	-	-	-	-	-	-
Amortization	31,116	30,694	495,581	432,762	103,366	96,807	-	-	211,450	186,801
	<u>940,579</u>	<u>864,643</u>	<u>1,568,976</u>	<u>1,277,462</u>	<u>582,576</u>	<u>770,934</u>	<u>246,608</u>	<u>238,135</u>	<u>1,233,330</u>	<u>1,202,041</u>
Net Surplus (Deficit)	\$ 2,313,426	\$ 2,114,138	\$ 109,464	\$ 3,037,851	\$ (489,844)	\$ (386,922)	\$ 25,462	\$ 17,327	\$ (988,191)	\$ (924,309)

DISTRICT OF PORT HARDY
Consolidated Schedule of Segmented Disclosure
For the year ended December 31, 2011

Schedule 1
(Note 19)
Page 2 of 2

	Community Development		Water		Sewer		Consolidated Actual	Budget Unaudited	Consolidated Actual	Budget Unaudited
	2011	2010	2011	2010	2011	2010	2011	2011	2010	2010
Revenues										
Taxation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,236,667	\$ 2,218,882	\$ 2,149,268	\$ 2,103,172
Payments in lieu of taxes	-	-	-	-	-	-	147,034	151,956	143,367	126,392
Sale of Service	-	-	1,432,653	1,368,866	1,462,378	1,138,929	3,641,021	3,655,587	3,236,972	3,340,690
Government Transfers	116,246	116,002	-	-	318,854	1,918,949	1,789,836	1,661,628	6,559,462	4,369,812
Development contributions	-	-	492,978	74,000	-	113,000	1,213,698	3,015,500	574,750	-
Actuarial recognized	-	-	-	-	20,800	13,593	20,800	-	13,593	-
Sundry	27,578	41,823	14,592	13,905	12,911	13,040	392,320	298,938	345,995	300,660
	<u>143,824</u>	<u>157,825</u>	<u>1,940,223</u>	<u>1,456,771</u>	<u>1,814,943</u>	<u>3,197,511</u>	<u>9,441,376</u>	<u>11,002,491</u>	<u>13,023,407</u>	<u>10,240,726</u>
Expenses										
Salaries & benefits	54,540	69,313	3,978	1,345	222	-	1,782,288	1,733,263	1,790,064	1,970,562
Goods & services	94,036	147,012	96,493	106,291	116,131	110,798	1,341,165	1,373,990	1,322,344	1,156,721
Contracted services	61,387	26,386	849,712	832,582	793,222	773,688	2,641,801	2,455,587	2,559,199	2,416,444
Interest	-	-	20,084	14,820	104,324	94,690	140,905	146,247	111,469	128,601
Loss Gov't business enterprise	16,538	-	-	-	-	-	16,538	-	-	-
Loss on disposal of assets	-	-	3,895	-	3,878	-	26,299	-	-	-
Amortization	-	-	326,851	300,214	341,291	300,680	1,509,655	1,470,000	1,347,958	1,340,000
	<u>226,501</u>	<u>242,711</u>	<u>1,301,013</u>	<u>1,255,252</u>	<u>1,359,068</u>	<u>1,279,856</u>	<u>7,458,651</u>	<u>7,179,087</u>	<u>7,131,034</u>	<u>7,012,328</u>
Net Surplus (Deficit)	\$ (82,677)	\$ (84,886)	\$ 639,210	\$ 201,519	\$ 455,875	\$ 1,917,655	\$ 1,982,725	\$ 3,823,404	\$ 5,892,373	\$ 3,228,398

DISTRICT OF PORT HARDY
Consolidated Statement of Tangible Capital Assets
For the year ended December 31, 2011

Schedule 2

	Land & Improvements	Buildings	Furniture & Equipment	Vehicles & Machinery	Computer Hardware/ Software	Engineering Structures			Total	2010
						Roads	Water	Sewer		
Cost										
Opening Balance	\$ 5,298,028	\$ 9,534,229	\$ 394,593	\$ 3,623,459	\$ 135,250	\$ 22,112,038	\$ 11,472,593	\$ 14,825,953	\$ 67,396,143	59,374,609
Add: Additions	22,950	83,602	-	390,065	-	1,447,124	1,166,824	455,520	3,566,085	2,098,592
Add: Construction-in-progress	118,194	23,572	2,500	-	2,908	41,441	54,317	128,201	371,133	5,948,442
Less: Disposals	-	(28,499)	-	(268,374)	-	(51,370)	(23,425)	(11,080)	(382,748)	(25,500)
Closing Balance	5,439,172	9,612,904	397,093	3,745,150	138,158	23,549,233	12,670,309	15,398,594	70,950,613	67,396,143
Accumulated Amortization										
Opening Balance	1,317,300	5,284,237	347,340	2,054,665	135,012	10,063,539	5,372,454	4,330,452	28,904,999	27,582,537
Add: Amortization	61,605	204,323	23,903	199,390	237	352,055	326,850	341,292	1,509,655	1,347,962
Less: Accum Amortization on Disposals	-	(9,973)	-	(268,374)	-	(51,370)	(19,530)	(7,571)	(356,818)	(25,500)
Closing Balance	1,378,905	5,478,587	371,243	1,985,681	135,249	10,364,224	5,679,774	4,664,173	30,057,836	28,904,999
Net Book Value for year ended December 31, 2011	\$ 4,060,267	\$ 4,134,317	\$ 25,850	\$ 1,759,469	\$ 2,909	\$ 13,185,009	\$ 6,990,535	\$ 10,734,421	\$ 40,892,777	\$ 38,491,144

DISTRICT OF PORT HARDY
Consolidated Statement of Accumulated Surplus
As at December 31, 2011

	<u>2011</u>	<u>2010</u>
Surplus		
Invested in tangible capital assets	\$ 38,222,568	\$ 36,050,315
Operating funds	2,558,220	2,660,085
	<u>40,780,788</u>	<u>38,710,400</u>
Reserves		
Buildings	133,102	131,738
Computers	20,088	19,882
Equipment replacement	200,461	301,284
General capital works	208,583	206,446
Park development	37,294	36,912
Recreation facilities	135,646	134,256
Sidewalks and roads	273,407	270,606
Tax sale	16,468	16,299
	<u>1,025,049</u>	<u>1,117,423</u>
Water Reserve Fund		
Water capital works	155,680	154,085
Sewer Reserve Fund		
Sewer capital works	304,188	301,072
	<u>1,484,917</u>	<u>1,572,580</u>
Accumulated Surplus, End Of Year	<u>\$ 42,265,705</u>	<u>\$ 40,282,980</u>