



AGENDA
DISTRICT OF PORT HARDY
COMMITTEE OF THE WHOLE MEETING
6:00 pm TUESDAY MAY 10, 2016
COUNCIL CHAMBERS, MUNICIPAL HALL
7360 COLUMBIA STREET

Mayor: Hank Bood
Councillors: Pat Corbett-Labatt, Dennis Dugas, Jessie Hemphill, Rick Marcotte, Fred Robertson,
John Tidbury

Staff: Allison McCarrick, Chief Administrative Officer; Heather Nelson-Smith, Director of
Corporate Services; Abbas Farahbakhsh, Director of Operational Services; Adrian
Maas, Director of Financial Services

<u>Page</u>		Time:
	A. CALL TO ORDER	
	B. APPROVAL OF AGENDA	
	Motion required	1. 2.
	C. STAFF REPORTS	
1-3	1. Heather Nelson-Smith, Director of Corporate Services (May 3, 2016) re: Reducing the Size of Council.	
	Motion / direction	1. 2.
	D. DELEGATION	
	1. Cory Vanderhorst, CA of MNP LLP (Auditors) re: MNP, LLP - Presentation of 2015 Draft Financial Statements, via conference call.	
4	MNP LLP Auditor's Letter (May 10/16)	
5-15	MNP District of Port Hardy Audit Findings Report	
17-44	2015 Draft Financial Statements	
	Recommendation: The Committee of the Whole recommends that Council approve the 2015 Draft Financial Statements as prepared by staff.	
	Motion / direction	1. 2.
	(Committee of the Whole Recommendation re 2015 Financial Statements to be brought forward to regular Council agenda for acceptance.)	
	E. NEW BUSINESS	
	No new business	
	F. ADJOURNMENT	
	Motion required	1. 2. Time:



DISTRICT OF PORT HARDY REPORT TO CAO

TO: Allison McCarrick
FROM: Heather Nelson-Smith
SUBJECT: Reducing the Size of Council
DATE: May 3, 2016

Report to consider the reduction of the size of Council from six councillors to four.

BACKGROUND:

The Local Government Act specifies how a municipality must be classified upon incorporation. Council can consider reducing the size of Council.

Community Charter Size of Council

118 (1) Unless otherwise provided by letters patent or by a bylaw under this section, the council size for municipalities must be as follows:

(a) for a city or district having a population of more than 50 000, the council is to consist of a mayor and 8 councillors;

(b) for a city or district having a population of 50 000 or less, the council is to consist of a mayor and 6 councillors;

(c) for a town or village, the council is to consist of a mayor and 4 councillors.

(2) For the purposes of this section, any change to a council size under subsection (1) is to be based on the population of the municipality as at January 1 in a general local election year and the change takes effect for the purposes of that election.

(3) A council may, by bylaw, establish the number of council members as a mayor and 4, 6, 8 or 10 councillors.

(4) If a bylaw under subsection (3) would

(a) reduce the number of council members, or

(b) maintain the current number of council members, despite an increase that would otherwise result under subsection (2),

it may only be adopted if it receives the assent of the electors.

(5) A bylaw under subsection (3)

(a) must be made at least 6 months before the next general local election, and

(b) does not become effective until that general local election.

(6) The size of council as established under subsection (3) applies despite any provision of a municipality's letters patent.

CONSIDERATIONS:

- Financial- reducing the amount of remuneration (approx. 25,000).
- Longer hours for Council members.
- Citizen representation.
- Committee structure or amount of committees (less councillors to fill seats).
- Less political representation at election time, fewer seats less candidates run.

OTHER MUNICIPALITIES:

Districts with similar population

Name	Jurisdiction type	2011 Census	Council Size
Houston	District	3147	7
Mackenzie	District	3507	7
Lantzville	District	3601	5
Sparwood	District	3667	7
Port Hardy	District	4008	7
Vanderhoof	District	4480	7
Metchosin	District	4803	5
Peachland	District	5200	7
Kent	District	5664	5
Hope	District	5969	7

Communities with similar population

Name	Jurisdiction type	2011 Census	Council Size
Cumberland	Village	3398	5
Bowen Island	Island Municipality	3402	7
Mackenzie	District	3507	7
Rossland	City	3556	7
Lantzville	District	3601	5
Sparwood	District	3667	7
Golden	Town	3701	7
Grand Forks	City	3985	7
Port Hardy	District	4008	7
Gibsons	Town	4437	5
Fernie	City	4448	7
Vanderhoof	District	4480	7
Metchosin	District	4803	5
Armstrong	City	4815	7
Oliver	Town	4824	7
Osoyoos	Town	4845	7
Duncan	City	4932	7
Northern Rockies	Regional Municipality	4987	7
Spallumcheen	Township	5055	7
Peachland	District	5200	7
Creston	Town	5306	7
Smithers	Town	5404	7
Hope	District	5969	7
Kent	District	5664	5
Kimberley	City	6652	7

RECOMMENDATION:

1. *THAT Council maintains the size of Council as is.*
- OR
2. *THAT Council direct staff to proceed with steps to reduce Council including Bylaw and preparation for referendum.*

Respectfully Submitted,



Heather Nelson-Smith

I agree with the recommendation.



Allison McCarrick, CAO

May 10, 2016

Mayor and Council
P O Box 68 7360 Columbia Street
Port Hardy, BC V0N 2P0

Dear Sir/Madam:

We have been engaged to audit the consolidated financial statements of District of Port Hardy ("the District") as at December 31, 2015 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance* ("the Standard") requires that we communicate at least annually with you regarding all relationships between the District and MNP LLP ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the appropriate provincial institute and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) Economic dependence on a client; and
- (e) Provision of services in addition to the audit engagement.

We are not aware of any relationship between the District and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2015 to May 10, 2016.

Generally Accepted Auditing Standards require that we confirm our independence to the Board of Directors. Accordingly, we hereby confirm that MNP is independent with respect to the District within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia as of May 10, 2016.

This report is intended solely for the use of the Board of Directors, management and others within the District and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours truly,



MNP LLP
Chartered Professional Accountants



**DISTRICT OF PORT HARDY
AUDIT FINDINGS REPORT**
Year Ending December 31, 2015
For presentation at the Mayor and Council
Meeting
May 10, 2016

May 10, 2016

To the Mayor and Council of the District of Port Hardy

Dear Mayor and Council:

We are pleased to put forward this report to discuss the results of our audit of the consolidated financial statements of the District of Port Hardy ("the District") for the year ended December 31, 2015. In this report, we cover those significant matters which, in our opinion, you should be aware of as Mayor and Council.

We have completed our audit of the consolidated financial statements of the District and are prepared to sign our independent auditors' report after the Mayor and Council's review and approval of the consolidated financial statements.

Our report will provide an unqualified opinion to the Mayor and Council of the District. A draft copy of our proposed independent auditors' report is included as Appendix A to this report.

We would like to express our appreciation for the excellent cooperation we have received from management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Yours truly,

Handwritten signature in black ink that reads "MNP LLP". The letters are stylized and slanted.

MNP LLP
Chartered Professional Accountants

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1. MNP AUDIT PROCESS

As auditors, we report to the Mayor and Council on the results of our examination of the District's consolidated financial statements. This report summarizes our audit process and discusses issues that are of relevance to the Mayor and Council of the District.

- Our audit was carried out in accordance with Canadian generally accepted auditing standards.
- Our audit procedures included a review of all significant accounting and management reporting systems.
 - Each material year-end balance, key transaction and other event considered significant to the consolidated financial statements was separately examined.
- Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks.
 - This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise.
 - Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.



- During the course of our audit, we have:
 - Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
 - Assessed the accounting principles used and significant estimates made by management;
 - Obtained an understanding of the District and its environment, including management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures;
 - Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
 - Evaluated the overall consolidated financial statement presentation;
 - Performed a subsequent events review with management;
 - Reviewed and assessed the status of contingencies, commitments and guarantees;
 - Reviewed and assessed exposure to environmental liabilities.
- We have obtained written representations from management in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:
 - Directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements;
 - Not directly related to items that are material to the consolidated financial statements, but are significant, either individually or in the aggregate, to the engagement; and
 - Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements.

2. SIGNIFICANT AUDIT FINDINGS

As a part of our commitment to providing superior client service we strive to maintain effective two-way communication. To aid the Mayor and Council in its role overseeing the financial reporting process, including its review and approval of the consolidated financial statements, we are pleased to provide you with the following significant findings:

AREAS OF AUDIT EMPHASIS

- The following lists the key areas of our audit emphasis for your District:
 - Financial Statement Presentation and Disclosure
 - Contingencies, Lawsuits and Commitments
 - Fraud and Error
 - Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

FINAL MATERIALITY

- **Final materiality used to assess the significance of misstatements or omissions identified during the audit and determine the level of audit testing performed was \$250,000.**

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

- While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention. However, we may not be aware of all the significant deficiencies in internal control that do, in fact, exist.

IDENTIFIED OR SUSPECTED FRAUD OR UNUSUAL ACTIVITY

- No incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

- Nothing has come to our attention that would suggest there is non-compliance with laws and regulations that would have a material effect on the financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

- During the year the District received \$110,741 in dividends from North Island Community Forest Limited Partnership.
- During the course of our audit, we selected a sample of expense claims submitted by the Mayor and Council and by Senior Management of the District of Port Hardy and reviewed those expense claims for approvals and compliance with the related bylaws or policies. We did not find any issues or irregularities to bring to your attention.

GOING CONCERN

- We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

SIGNIFICANT ACCOUNTING POLICIES

- The accounting policies used by the entity are appropriate and have been consistently applied.
- In 2015, the District adopted PS 3260 *Liability for 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.

There was no impact on the District's consolidated financial statements from adopting the new accounting standard.

SIGNIFICANT MANAGEMENT ESTIMATES

- The preparation of the consolidated financial statements is subject to significant accounting estimates made by management. All significant management estimates were reviewed for the current period and no material differences were noted.
- The following is a summary of significant management estimates and provisions:
 - Allowance for doubtful accounts – provision for the accounts receivable related to recreation and wharf receivables - \$272,774 (2014 - \$265,508).
 - Provision for legal contingencies – no provision deemed necessary.
 - Accrual for accrued employee benefits – accruals made for expected future payments for employee sick leave, vacation and severance benefits calculated based on obligations as determined by collective agreements and contractual arrangements.

- Amortization period of tangible capital assets – amortized over the estimated useful life of the respective assets. All assets were amortized under the straight-line method, over 5 to 100 years.

MATTERS ARISING FROM MANAGEMENT DISCUSSIONS

- We would like to formally acknowledge the excellent cooperation and assistance we received from the management and staff.
- There were no disagreements with management, significant difficulties or other irregularities encountered during the course of our audit.
- We would like to note the excellent support provided in the audit binders and supporting documentation.

SIGNIFICANT DIFFERENCES

- No significant differences were found with respect to the December 31, 2015 consolidated financial statements. A summary of insignificant differences is available on request.

MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT

- Our independent auditors' report will provide an unqualified opinion to the Mayor and Council.

INDEPENDENCE

- We confirm to the Mayor and Council that we are independent of the District.
- Our letter to the Mayor and Council discussing our independence is included under separate cover.

We would also be pleased to discuss any other issues and/or concerns of the Mayor and Council.

APPENDIX A: DRAFT 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, 2015 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, 2015, 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 10, 2016

Chartered Professional Accountants

APPENDIX B: AREAS OF AUDIT EMPHASIS

FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

Audit Procedures:

- We have reviewed the consolidated financial statements and concluded that the corresponding presentation and disclosure is in accordance with Canadian Public Sector Accounting Standards.
- We have participated in discussions with Management on all significant transactions during the course of the past 12 months, and have assisted in ensuring appropriate treatment and disclosure.

We have concluded that the District's consolidated financial statements have been appropriately presented and appropriate disclosures have been made in accordance with Canadian Public Sector Accounting Standards.

CONTINGENCIES, LAWSUITS AND COMMITMENTS

Audit Procedures:

- We made detailed inquiries of Management and reviewed both minute books and legal files to identify contingencies, lawsuits and commitments. No items not already brought to our attention and/or disclosed in the notes to the financial statements were noted.
- We have received all relevant legal letters and Management's representation letter attesting to the completeness of issues of this nature.

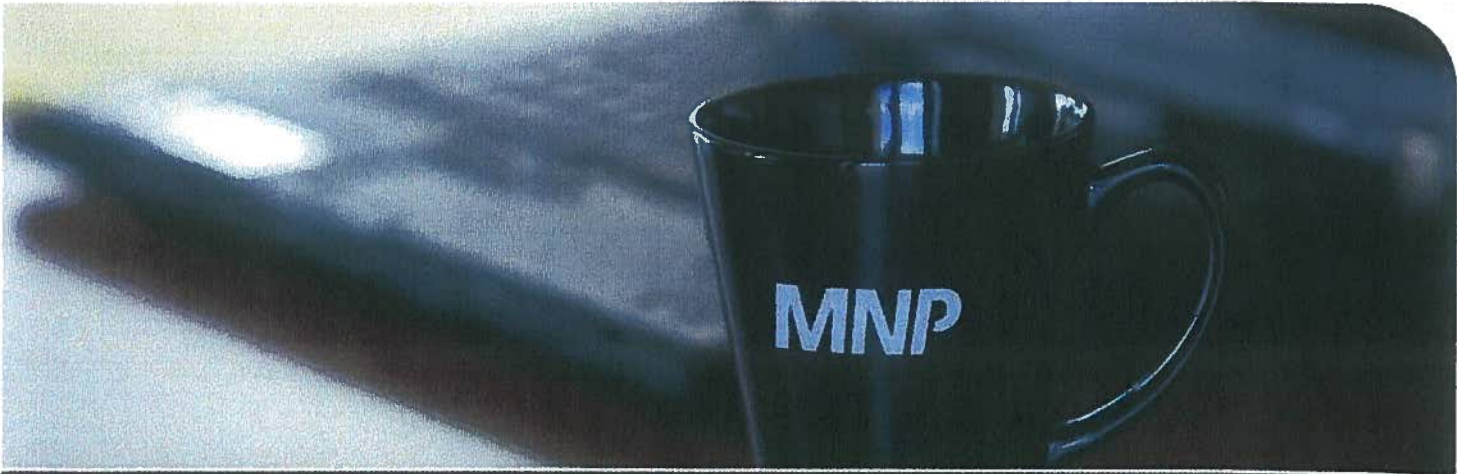
We have concluded that contingencies, lawsuits and commitments have been appropriately accounted for and disclosed in the District's consolidated financial statements.

FRAUD AND ERROR

Audit Procedures:

- Obtained from Management an assessment of the entity's susceptibility to material misstatements arising from fraud or error.
- Discussed with Management the entity's susceptibility to material misstatements arising from fraud or error.
- Obtained Management representations concerning fraud and error.

We concur with Management's assessment that the District's susceptibility to material misstatements arising from fraud or error is reasonably low.



ABOUT MNP

MNP is one of the largest chartered accountancy and business consulting firms in Canada. For more than 65 years, we have proudly served and responded to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a cost-effective approach to doing business and personalized strategies to help you succeed.



Visit us at MNP.ca



Praxity, AISBL, is a global alliance of independent firms. Organized as an international not-for-profit entity under Belgium law, Praxity has its administrative office in London. As an alliance, Praxity does not practice the profession of public accountancy or provide audit, tax, consulting or other professional services of any type to third parties. The alliance does not constitute a joint venture, partnership or network between participating firms. Because the alliance firms are independent, Praxity does not guarantee the services or the quality of services provided by participating firms.

District of Port Hardy

Consolidated Financial Statements

December 31, 2015



Photo courtesy Aidan Wood

District of Port Hardy

December 31, 2015

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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.

Adrian Maas CPA, CGA

Chief Financial Officer

Hank Bood

Mayor

Independent Auditors' Report

NOTE THIS PAGE IS NOT THE PAGE TO BE USED IN PUBLISHED STATEMENTS

IT WILL BE REPLACED WITH ONE SUPPLIED BY THE AUDITORS

To the Shareholders
District of Port Hardy

We have audited the consolidated statement of financial position of District of Port Hardy as at December 31, 2015 and the consolidated Statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the district's management. 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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the district as at December 31, 2015 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

District of Port Hardy
Consolidated Statement of Financial Position
As At December 31, 2015

	2015	2014
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 4,204,175	\$ 3,610,933
Accounts receivable (Note 3)	1,616,391	1,585,629
Investment in Government business enterprises (Note 19)	96,605	211,877
Tax sale properties	19,467	13,509
Land held for resale	506	506
	<u>5,937,144</u>	<u>5,422,454</u>
Financial Liabilities		
Accounts payable and other liabilities (Note 4)	590,213	558,154
Tax sale properties deposits	3,948	7,765
Performance deposits and bonds (Note 5)	15,994	12,794
Deferred revenue (Note 6)	143,886	135,082
Capital leases (Note 8)	117,746	642,705
Capital borrowing (Note 21)	123,575	59,600
Long-term debt (Note 9)	465,077	684,287
	<u>1,460,439</u>	<u>2,100,387</u>
Net Financial Assets	<u>4,476,705</u>	<u>3,322,067</u>
Non-Financial Assets		
Tangible capital assets (Note 10)	38,390,513	39,731,026
Inventory	140,383	196,175
Prepays	57,650	68,687
	<u>38,588,546</u>	<u>39,995,888</u>
Accumulated Surplus (Schedule 3)	<u>\$ 43,065,251</u>	<u>\$ 43,317,955</u>

Commitments and contingencies (Note 16)

Approved by:

 Adrian Maas CPA, CGA

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, 2015

	2015	2015 Budget (Note 12)	2014
Revenue			
Taxes	\$ 2,425,021	\$ 2,428,129	\$ 2,366,928
Payments in lieu of taxes	165,229	163,580	166,292
Sewer user rates	1,027,216	1,027,000	1,027,703
Water user rates	1,231,129	1,205,000	1,222,983
Sale of services	1,193,203	1,114,609	1,228,528
Other revenue	455,470	283,170	501,479
Income from investment in Government business enterprises (Note 19)	-	-	174,305
Government transfers from other governments	762,426	475,000	1,116,914
	<u>7,259,694</u>	<u>6,696,488</u>	<u>7,805,132</u>
Expenses			
General government services	927,853	977,129	892,945
Transportation services	1,738,839	1,677,865	1,749,519
Protective services	460,658	470,575	442,703
Environmental health services	265,487	283,326	273,210
Recreation and culture	1,322,295	1,360,892	1,387,894
Community development	93,595	116,189	126,013
Water	1,338,782	1,344,754	1,422,665
Sewer	1,364,889	1,316,587	1,334,407
	<u>7,512,398</u>	<u>7,547,317</u>	<u>7,629,356</u>
Annual surplus (deficit)	(252,704)	(850,829)	175,776
Accumulated surplus, beginning of year	43,317,955	43,317,955	43,142,179
Accumulated surplus, end of year	<u><u>\$ 43,065,251</u></u>	<u><u>\$42,467,126</u></u>	<u><u>\$ 43,317,955</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, 2015

	2015	2015 Budget (Note 12)	2014
Annual surplus (deficit)	\$ (252,704)	\$ (850,829)	\$ 175,776
Acquisition of tangible capital assets	(532,777)	(831,000)	(597,438)
Amortization	1,812,522	1,650,000	1,820,611
Loss on disposal of tangible capital assets	-	-	19,140
Proceeds on sale of tangible capital assets	-	-	36,441
Capital Lease Adjustment	60,768	-	-
	<u>1,340,513</u>	<u>819,000</u>	<u>1,278,754</u>
Acquisition of prepaid expense	(57,650)	-	(68,687)
Acquisition of supplies inventory	55,792	-	9,828
Use of prepaid expense	68,687	-	59,449
	<u>66,829</u>	<u>-</u>	<u>590</u>
Change in net financial assets	1,154,638	(31,829)	1,455,120
Net financial assets, beginning of year	3,322,067	3,322,067	1,866,947
Net financial assets, end of year	<u>\$ 4,476,705</u>	<u>\$ 3,290,238</u>	<u>\$ 3,322,067</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, 2015

	2015	2014
Cash Provided By (Used In)		
Operating Activities		
Annual Surplus (Deficit)	\$ (252,704)	\$ 175,776
Increase (Decrease) in Non Financial Assets		
Amortization	1,812,522	1,820,611
Capital lease adjustment	60,769	-
(Gain) Loss on disposal of assets	(17,976)	19,140
Trade-in of capital asset	-	(3,300)
Change in inventory	55,792	9,828
Change in prepaids	11,037	(9,238)
	<u>1,669,440</u>	<u>2,012,817</u>
(Increase) Decrease in Financial Assets and Liabilities		
Change in accounts receivable	(30,762)	376,669
Change in investment in Government business enterprises	115,272	25,695
Change in tax sale properties	(5,958)	14,216
Change in accounts payable	32,059	(309,484)
Change in tax sale deposits	(3,817)	(26,091)
Change in performance deposits and bonds	3,200	(2,106)
Change in deferred revenue	8,804	(550,577)
Actuarial adjustment on debt	(52,629)	(44,197)
	<u>1,735,609</u>	<u>1,496,942</u>
Cash provided by operating transactions	1,735,609	1,496,942
Capital Activities		
Acquisition of tangible capital assets	(532,777)	(523,316)
Proceeds on sale of tangible capital assets	17,976	36,441
	<u>(514,801)</u>	<u>(486,875)</u>
Financing Activities		
Capital lease repaid	(556,184)	(346,122)
Debenture debt repaid	(166,582)	(166,582)
Capital borrowing	95,200	-
	<u>(627,566)</u>	<u>(512,704)</u>
Net increase in cash and cash equivalents	593,242	497,363
Cash and cash equivalents at beginning of period	3,610,933	3,113,570
Cash and cash equivalents at end of period	<u>\$ 4,204,175</u>	<u>\$ 3,610,933</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, 2015

	2015	2014
Consolidated Statement of Cash Flows continued.		
Represented by		
Cash	\$ 383,150	\$ 586,871
Investments	3,821,025	3,024,062
	<u>\$ 4,204,175</u>	<u>\$ 3,610,933</u>
Supplemental information		
Interest paid	\$ 176,485	\$ 156,124
Interest received	\$ 47,732	\$ 53,721

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, 2015

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 CPA Canada. 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. Other revenue is recorded when performance of services is complete, amounts are measurable, and collectibility is reasonably assured. Income from investment in Government business enterprises is recorded using the modified equity method, based on the District's portion of annual earnings from the government business enterprises for the year (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, 2015

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, accounts payable, and other liabilities, performance deposit and bonds, capital borrowing, 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, except as described in Note 3.

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. Accrued employee benefits liabilities are estimated based on the anticipated wage rate increases, time value of money and expected average length of employment of District staff. 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. Liabilities for contaminated sites are estimated based on the best information available regarding potential contaminated sites that the District of Port Hardy is responsible for.

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

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 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.

	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) Liability for contaminated sites

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the District of Port Hardy is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available as at December 31, 2015.

At each financial reporting date the District of Port Hardy reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The District of Port Hardy continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

k) Recent Accounting Pronouncements

PS 2200 Related Party Disclosures

In March 2015 as part of the CPA Canada Public Sector Accounting Handbook Revisions Release No. 42, the Public Sector Accounting Board (PSAB) issued a new standard, PS 2200 Related Party Disclosures.

This new section defines related party and established disclosures required for related party transactions. Disclosure of Information about related party transactions and the relationships underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements.

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2015

1. Significant Accounting Policies Continued:

k) Recent Accounting Pronouncements Continued

This section is effective for fiscal years beginning on or after April 1, 2017. Early adoption is permitted.

The District of Port Hardy does not expect application of the new standards to have a material effect on the consolidated financial statements.

PS 3210 Assets

In June 2015, new PS 3210 Assets was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section provides guidance for applying the definition of assets set out in PS 1000 Financial Statement Concepts. The main features of this standard are as follows.

Assets are defined as economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.

Economic resources can arise from such events as agreements, contracts, other governments legislation, the governments own legislation, and voluntary contributions.

The public is often the beneficiary of goods and services provided by a public sector entity. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services.

A public sector entity's ability to regulate an economic resource does not, in and of itself, constitute control of an asset, if the interest extends only to the regulatory use of the economic resource and does not include the ability to control access to future economic benefits.

A public sector entity acting as a trustee on behalf of beneficiaries specified in an agreement or statute is merely administering the assets and does not control the assets, as future economic benefits flow to the beneficiaries.

An economic resource may meet the definition of an asset, but would not be recognized if there is no appropriate basis for measurement and a reasonable estimate cannot be made, or if another Handbook Section prohibits its recognition. Information about assets not recognized should be disclosed in the notes.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

The District of Port Hardy does not expect application of the new Standard to have a material effect on the consolidated financial statements.

PS 3320 Contingent Assets

In June 2015, PS 3320 Contingent Asses was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section establishes disclosure standards on contingent assets. The main features of this standard are as follows:

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

1. Significant Accounting Policies Continued:

k) Recent Accounting Pronouncements Continued

Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date.

Elected or public sector officials announcing public sector intentions after the financial statement date cannot create an existing condition or situation at the financial statement date.

Disclosures should include existence, nature, and extent of contingent assets, as well as the reason for any non-disclosure of extent, and the basis for any estimates of extent made.

When a reasonable estimate can be made, disclosure should include a best estimate and a range of possible amounts (or a narrower range of more likely amounts), unless such a disclosure would have an adverse impact on the outcome.

The Standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted. The District of Port Hardy does not expect application of the new Standard to have a material effect on the consolidated financial statements.

PS 3380 Contractual Rights

In June 2015, new PS 3380 Contractual Rights was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). This new Section establishes disclosure standards on contractual rights, and does not include contractual rights to exchange assets where revenue does not arise. The main features of this Standard are as follows:

Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.

Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.

Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right.

Disclosures should include descriptions about nature, extent and timing.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

The District of Port Hardy does not expect application of the new Standard to have a material effect on the consolidated financial statements.

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

1. Significant Accounting Policies Continued:

k) Recent Accounting Pronouncements Continued

PS 3430 Restructuring Transaction

In June 2015, new PS 3430 Restructuring Transactions was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section establishes disclosure standards on contingent assets. The main features of this Standard are as follow:

A restructuring transaction is defined separately from an acquisition. The key distinction between the two is the absence of an exchange of consideration in a restructuring transaction.

A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities that does not involve an exchange of consideration.

Individual assets and liabilities transferred in a restructuring transaction are derecognized by the transferor and recognized by the recipient at their carrying amount with applicable adjustments.

The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction is recognized as revenue or as an expense.

Restructuring-related costs are recognized as expenses when incurred.

Individual assets and liabilities received in a restructuring transaction are initially classified based on the accounting policies and circumstances of the recipient at the restructuring date.

The financial position and results of operations prior to the restructuring date are not restated.

Disclosure of information about the transferred assets, liabilities and related operations prior to the restructuring date by the recipient is encouraged but not required.

The Section is effective for new restructuring transactions that occur in fiscal periods beginning on or after April 1, 2018. Earlier adoption is encouraged.

The District of Port Hardy does not expect application of the new Standard to have a material effect on the consolidated financial statements.

District of Port Hardy
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

2. Cash and cash equivalents

	2015	2014
General revenue fund	<u>\$ 4,192,229</u>	<u>\$ 3,599,088</u>
Reserve accounts	11,946	11,845
	<u>\$ 4,204,175</u>	<u>\$ 3,610,933</u>

The above balances include Municipal Finance Authority money market account \$3,821,025 (2014 - \$3,024,062), carried at cost, which is also equal to market value.

3. Accounts Receivable

	2015	2014
Property taxes	<u>\$ 557,540</u>	<u>\$ 624,788</u>
Other Governments	438,093	313,378
Trade and other	893,532	912,971
	1,889,165	1,851,137
Less allowance for doubtful accounts	<u>(272,774)</u>	<u>(265,508)</u>
	<u>\$ 1,616,391</u>	<u>\$ 1,585,629</u>

Wharf receivables total \$257,186 (2014 - \$239,189). Of this amount \$217,748 (2014 - \$195,805) is 90 days overdue and has been recorded in allowance for doubtful accounts above.

4. Accounts Payable and other liabilities

	2015	2014
Other Governments	<u>\$ 17,437</u>	<u>\$ 79,654</u>
Accrued wages and benefits	234,271	255,225
Trade and other	338,505	223,275
	<u>\$ 590,213</u>	<u>\$ 558,154</u>

5. Performance deposits and bonds

	2015	2014
Other deposits	<u>\$ 15,994</u>	<u>\$ 12,794</u>

District of Port Hardy
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

6. Deferred Revenue

	2015	2014
Prepaid taxes	\$ 39,194	\$ 31,840
Prepaid fees and charges	50,101	50,888
Other deferred revenue	54,591	52,354
	<u>\$ 143,886</u>	<u>\$ 135,082</u>

7. Federal Gas Tax Funds

Gas tax transfers are recorded as revenues when received. Unspent funds are included in Operating Funds Surplus (see Schedule 3)

	2015	2014
Opening balance of unspent funds	\$ 535,025	\$ 512,117
Add: Amount received during the year	214,357	214,358
Interest earned	5,790	5,644
Less: Amount spent on eligible projects	(131,272)	(197,094)
Closing balance of unspent funds	<u>\$ 623,900</u>	<u>\$ 535,025</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:

2016	\$ 52,181
2017	36,116
2018	24,885
2019	7,995
Total minimum lease payments	<u>121,177</u>
Less: amount representing interest	(3,431)
Obligations under capital lease	<u><u>\$ 117,746</u></u>

Total interest expense during the year was \$5,066 (2014 \$14,310) and interest rates were constant at 2.00% (2.00% in 2014).

District of Port Hardy
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

9. Long-Term Debt

	Balance, Beginning of year	Additions	Principal repayments and actuarial recognized	Balance, end of year
Sewer Fund				
Long-term debt	\$ 684,287	\$ -	\$ (219,210)	\$ 465,077

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

2016	\$ 166,582
2017	166,582
	<u>\$ 333,164</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)

	2015	2014
Land and Improvements	\$ 4,849,803	\$ 4,908,534
Buildings	3,570,088	3,678,211
Furniture and Equipment	206	2,871
Vehicles and Machinery	1,325,949	1,387,813
Computer Hardware and Software	7,420	12,366
Engineering Structures		
Roads	12,622,578	12,977,943
Water	6,051,899	6,424,106
Sewer	9,962,570	10,339,182
	<u>\$38,390,513</u>	<u>\$39,731,026</u>

The cost of capital assets under construction in 2015 is \$NIL (\$NIL in 2014).

The net book value of leased assets in 2015 is \$760,493 (\$1,406,023 in 2014)

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, 2015

11. Pension Liability

The employer 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. As at December 31, 2014 the plan has about 185,000 active members and approximately 80,000 retired members. Active members include approximately 37,000 contributors from the Local Governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1.370 billion funding deficit for basic pension benefits on a going concern basis.

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 \$149,889 (2014 - \$154,397) for employer contributions while employees contributed \$143,603 (2014 - \$143,992) to the plan in fiscal 2015.

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 14, 2015, except in regard to budget amounts for amortization and tangible capital assets.

Annual surplus, as adopted April 14, 2015	\$ <u>0</u>
Add:	
Aquisition of tangible capital assets	\$ 831,000
Debenture principal repayments	640,200
Less:	
Interfund transfers	<u>(2,322,029)</u>
Annual deficit restated	<u><u>\$ (850,829)</u></u>

District of Port Hardy
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

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.

	2015	2014
School District 85	\$ 1,402,443	\$ 1,427,213
Mount Waddington Regional District	369,299	388,020
Mount Waddington Regional Hospital District	132,365	142,860
B.C. Assessment Authority	26,778	28,687
Municipal Finance Authority	85	87
Provincial Government - Police Tax	178,392	176,518
Vancouver Island Regional Library	145,808	129,488
	<u>\$ 2,255,170</u>	<u>\$ 2,292,873</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, 2015, the balance of funds held in trust was \$29,753 (2014 - \$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, 2015 is \$26,288 (2014 - \$31,379).

Sick leave liability at December 31, 2015 is \$89,430 (2014 - \$79,030).

Severance liability at December 31, 2015 is \$41,900 (2014 - \$46,051).

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

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.

d) Airport Wastewater Treatment Facility

The District's outfall at the airport wastewater facility has significant storm damage. The facility is currently operating within the effluent treatment parameters and therefore no liability for contaminated sites is being accrued, but significant repairs are needed. The District has established that repairs can be made at a cost of approximately \$40,000 and this is anticipated to be completed before summer of 2016. As at December 31, 2015 no amounts have been accrued in these financial statements for these anticipated future costs.

District of Port Hardy
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

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>2015</u>	<u>2014</u>
Sewer Fund		
Cash Deposits	<u>\$ 26,266</u>	<u>\$ 25,610</u>

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

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, 2015

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 were prepared under Canadian Accounting Standards for Private Enterprises (ASPE). Any difference between ASPE and IFRS would likely be insignificant.

	<u>2015</u>	<u>2014</u>
Summary of investment in Government Businesses		
NICFLP	\$ 91,565	\$ 206,807
NICF LTD.	5,040	5,070
	<u>96,605</u>	<u>211,877</u>
Summary of results of operations		
NICFLP	(4,486)	172,562
NICF LTD.	(45)	1,743
	<u>\$ (4,531)</u>	<u>\$ 174,305</u>

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

	<u>2015</u>	<u>2014</u>
Financial Position		
Current and other assets	\$ 301,816	\$ 667,286
Current and other liabilities	11,955	31,608
Partner's capital	<u>289,861</u>	<u>635,678</u>
Results of operations		
Revenues	26,725	573,576
Expenses	<u>40,319</u>	<u>50,660</u>
Net surplus (loss)	<u>\$ (13,594)</u>	<u>\$ 522,916</u>

During the year the District received a dividend from the NICFLP of \$110,741 (2014 - \$200,000).

20. Comparative Figures

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

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2015

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 a .5% spread on top of the CDOR (Canadian Dealer Offered Rate) rate. In 2015 the rate varied between 2.94 % and 1.47%. At December 31, 2015 the rate was 1.48%. Short-term borrowing is replaced by long-term debt periodically when balances and interest rates are considered inappropriate.

22. Change in accounting policy

Effective January 1, 2015, the District of Port Hardy adopted the recommendations in PS 3260 Liabilities for Contaminated Sites, as set out in the Canadian public sector accounting standards. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

Previously, no accounting policy existed to account for a liability for contaminated sites. Under the new recommendations, the District of Port Hardy is required to recognize a liability for contaminated sites when economic benefits will be given up, as described in Note 1. k), Significant Accounting Policies.

There was no effect on the District of Port Hardy's financial statements from adopting the above noted change in accounting policy

District of Port Hardy

Consolidated Schedule of Segmented Disclosure

For the Year Ended December 31, 2015

Schedule 1
(Note 18)

	General government services		Transportation services		Protective services		Environmental health services		Recreation and culture	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenues										
Taxes	\$ 2,425,021	\$ 2,366,928	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payments in lieu of taxes	165,229	166,292	-	-	-	-	-	-	-	-
Sale of services	-	-	340,952	379,338	35,712	27,823	258,138	251,369	206,544	209,046
Income from investment in Government business enterprises	-	-	-	-	-	-	-	-	-	-
Government transfers from other governments	538,679	337,900	-	11,014	-	-	-	-	-	-
Actuarial recognized	-	-	-	-	-	-	-	-	-	-
Other revenue	163,316	227,062	32,850	36,370	46,697	53,355	2,091	2,786	35,948	38,275
	3,292,245	3,098,182	373,802	426,722	82,409	81,178	260,229	254,155	242,492	247,321
Expenses										
Salaries and benefits	751,004	695,585	449,827	472,236	119,216	114,402	12,174	17,020	646,094	644,778
Goods and services	116,552	114,992	403,395	395,919	178,659	172,622	32,872	30,910	321,124	324,147
Contracted services	26,213	40,494	208,984	236,058	79,039	74,502	220,441	225,280	112,672	141,268
Interest	3,562	5,833	-	-	-	-	-	-	-	-
Loss on Government business enterprise	-	-	-	-	-	-	-	-	-	-
Amortization	30,522	36,041	676,623	645,306	83,744	81,177	-	-	242,405	277,701
	927,853	892,945	1,738,839	1,749,519	460,658	442,703	265,487	273,210	1,322,295	1,387,894
Net Surplus (Deficit)	\$ 2,364,392	\$ 2,205,237	\$ (1,365,037)	\$ (1,322,797)	\$ (378,249)	\$ (361,525)	\$ (5,256)	\$ (19,055)	\$ (1,079,803)	\$ (1,140,573)

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, 2015

Schedule 1
(Note 18)

	Community development		Water		Sewer		Consolidated		Consolidated	
	2015	2014	2015	2014	2015	2014	Actual	Budget	Actual	Budget
Revenues										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,425,021	\$ 2,428,129	\$ 2,366,928	\$ 2,376,788
Payments in lieu of taxes	-	-	-	-	-	-	165,229	163,580	166,292	163,330
Sale of services	-	-	1,439,366	1,468,783	1,170,835	1,166,855	3,451,547	3,346,609	3,503,214	3,353,404
Income from investment in Government business enterprises	-	174,305	-	-	-	-	-	-	174,305	-
Government transfers from other governments	223,747	768,000	-	-	-	-	762,426	475,000	1,116,914	607,017
Actuarial recognized	-	-	-	-	52,629	44,197	52,629	-	44,197	-
Other revenue	33,223	32,305	76,036	16,636	12,681	26,494	402,842	283,170	433,282	314,384
	256,970	974,610	1,515,402	1,485,419	1,236,145	1,237,546	7,259,694	6,696,488	7,805,132	6,814,923
Expenses										
Salaries and benefits	-	14,430	296,795	389,409	222,929	242,720	2,498,039	2,550,516	2,590,580	2,600,000
Goods and services	18,880	29,942	609,560	586,191	414,368	373,914	2,095,410	2,183,482	2,028,637	2,100,000
Contracted services	70,184	81,641	52,708	80,633	155,160	153,528	925,411	1,029,379	1,033,404	970,802
Interest	-	-	23,895	9,694	149,029	140,597	176,486	133,940	156,124	156,869
Loss on Government business enterprise	4,531	-	-	-	-	-	4,531	-	-	-
Amortization	-	-	355,824	356,738	423,403	423,648	1,812,521	1,650,000	1,820,611	1,650,000
	93,595	126,013	1,398,782	1,422,665	1,364,889	1,334,407	7,512,398	7,547,317	7,629,356	7,477,671
Net Surplus (Deficit)	\$ 163,375	\$ 848,597	\$ 176,620	\$ 62,754	\$ (128,744)	\$ (96,861)	\$ (252,704)	\$ (850,829)	\$ 175,776	\$ (662,748)

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, 2015

Schedule 2

	Costs				Accumulated Amortization						
	Add		Less		Add		Less				
	Opening Balance	Additions	Construction in progress	Disposals	Closing Balance	Opening Balance	Amortization	Accumulated Amortization on Disposals			
Land and Land Improvements	\$ 6,766,445	\$ 59,432	-	\$ -	\$ 6,825,877	\$ 1,857,911	\$ 118,163	\$ -	\$ 1,976,074	\$ 4,849,803	\$ 4,908,534
Buildings	9,838,284	100,244	-	-	9,938,528	6,160,073	208,367	-	6,368,440	3,570,088	3,678,211
Furniture and Equipment	397,093	-	-	-	397,093	394,222	2,665	-	396,887	206	2,871
Vehicles and Machinery	3,844,612	95,200	-	(47,688)	3,892,124	2,456,799	157,064	(47,688)	2,566,175	1,325,949	1,387,813
Computer Hardware and Software	159,982	-	-	-	159,982	147,616	4,946	-	152,562	7,420	12,366
Engineering Structures											
Roads	24,616,112	186,725	-	-	24,802,837	11,638,169	542,090	-	12,180,259	12,622,578	12,977,943
Water	13,163,192	44,385	-	(60,768)	13,146,809	6,739,086	355,824	-	7,094,910	6,051,899	6,424,106
Sewer	16,244,081	46,791	-	-	16,290,872	5,904,899	423,403	-	6,328,302	9,962,570	10,339,182
	\$ 75,029,801	\$ 532,777	\$ -	\$ (108,456)	\$ 75,454,122	\$ 35,298,775	\$ 1,812,522	\$ (47,688)	\$ 37,063,609	\$ 38,390,513	\$ 39,731,026

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, 2015

Schedule 3

	<u>2015</u>	<u>2014</u>
Surplus		
Invested in tangible capital assets	\$ 37,684,115	\$ 38,348,734
Operating funds	4,116,214	3,603,958
	<u>41,800,329</u>	<u>41,952,692</u>
Reserves		
Buildings	105,367	137,462
Computers	20,923	20,746
Equipment replacement	226,766	207,028
General capital works	170,309	189,871
Park development	38,844	38,516
Recreation facilities	110,130	100,078
Sidewalks and roads	96,454	179,621
Tax sale	17,152	17,008
	<u>785,945</u>	<u>890,330</u>
Water Reserve Fund		
Water capital works	162,149	160,780
Sewer Reserve Fund		
Sewer capital works	316,828	314,153
	<u>1,264,922</u>	<u>1,365,263</u>
Accumulated Surplus, end of year	<u><u>\$ 43,065,251</u></u>	<u><u>\$ 43,317,955</u></u>

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