



AGENDA
DISTRICT OF PORT HARDY
COMMITTEE OF THE WHOLE MEETING
6:30 pm TUESDAY APRIL 25, 2017
COUNCIL CHAMBERS, MUNICIPAL HALL
7360 COLUMBIA STREET

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

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. DELEGATION	
	1. Janna Olynyk, CPA, CA from MNP LLP (Auditors) re: MNP, LLP - Presentation of 2016 Draft Financial Statements.	
1-11	MNP District of Port Hardy Audit Findings Report (April 25, 2017)	
12-40	2016 Draft Financial Statements and	
41-48	2016 Statement of Financial Information	
	Recommendation: The Committee of the Whole recommends that Council approve the 2016 Draft Financial Statements as prepared by staff.	
	Motion / direction	1. 2.
	(Committee of the Whole Recommendation re: 2016 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:

April 25, 2017

To the Mayor and Council of the District of Port Hardy

Dear Mayor and Council:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of the District of Port Hardy (the "District") as at December 31, 2016 and for the year then ended. 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 which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the Mayor and Council of the District. A draft copy of our proposed Independent Auditors' Report is attached at the end of this report.

This report is intended solely for the information and use of Mayor and Council and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

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.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP". The letters are stylized and cursive.

MNP LLP
Chartered Professional Accountants

/rw

CONTENTS

INTRODUCTION.....	1
ENGAGEMENT STATUS.....	1
SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS.....	1
CHANGES FROM AUDIT SERVICE PLAN.....	1
AREAS OF AUDIT EMPHASIS.....	1
FINAL MATERIALITY.....	1
SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL.....	2
DIFFICULTIES ENCOUNTERED.....	2
IDENTIFIED OR SUSPECTED FRAUD.....	2
IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS.....	2
MATTERS ARISING IN CONNECTION WITH RELATED PARTIES.....	2
GOING CONCERN.....	2
AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES.....	3
MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT.....	3
MATTERS ARISING IN THE AUDIT OF COMPONENTS.....	4
SIGNIFICANT DIFFERENCES.....	4
MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT.....	4
AUDITOR INDEPENDENCE.....	4
APPENDIX A – MNP AUDIT PROCESS.....	5
APPENDIX B – AREAS OF AUDIT EMPHASIS.....	6
APPENDIX C – SUMMARY OF SIGNIFICANT DIFFERENCES.....	7
DRAFT INDEPENDENT AUDITORS' REPORT	
INDEPENDENCE COMMUNICATION	

INTRODUCTION

As auditors, we report to the Mayor and Council on the results of our examination of the consolidated financial statements of District of Port Hardy (the "District") as at and for the year ended December 31, 2016. The purpose of this Audit Findings Report is to assist you, as members of Mayor and Council, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the consolidated financial statements of the District and are prepared to sign our Auditors' Report subsequent to completion of the following procedures:

- Receipt of the remaining outstanding legal confirmations;
- Receipt of the signed management representation letter;
- The Mayor and Council's review and approval of the consolidated financial statements.

We expect to have the above procedures completed and to release our Audit Report on April 28, 2017. Our draft report, which will provide an unqualified opinion, is attached at the end of this report.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

There were no deviations from the Audit Service Plan previously presented to you.

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; and
- Fraud and Error.

Detailed information on Areas of Audit Emphasis is included as Appendix B to this report.

FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the District, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was \$250,000 for December 31, 2016 and \$250,000 for December 31, 2015.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses 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 allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to Mayor and Council on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

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.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, 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 any non-compliance with laws and regulations that would have a material effect on the consolidated financial statements.

MATTERS ARISING IN CONNECTION WITH RELATED PARTIES

No significant matters arose during the course of our audit in connection with related parties of the District.

GOING CONCERN

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

We are of the opinion that the going concern assumption is appropriate in preparation of the consolidated financial statements.

AUDITORS' VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian public sector accounting standards allows and requires the District to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your District's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the District are appropriate and have been consistently applied.
- No new accounting policies, or changes in accounting policies were applied.

Accounting Estimates

Employee future 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.

Liability for contaminated sites

- No provision deemed necessary.

Allowance for doubtful accounts

- Provision for accounts receivable related to amounts management has assessed to be uncollectible - \$345,758 (2015 - \$272,774).

Provision for legal contingencies

- No provision deemed necessary.

•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 3 to 100 years..

Financial Statement Disclosures

The disclosures made in the notes to the consolidated financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the consolidated financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the District.

There were no significant matters discussed, or subject to correspondence, with management that in our judgment need be brought to your attention.

MATTERS ARISING IN THE AUDIT OF COMPONENTS

- No issues were noted with the North Island Community Forest Limited Partnership.

SIGNIFICANT DIFFERENCES

A few significant differences were proposed to management with respect to the December 31, 2016 consolidated financial statements. A summary of significant differences has been included as Appendix C to this report.

MODIFICATIONS TO THE INDEPENDENT AUDITORS' REPORT

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Mayor and Council .

AUDITOR INDEPENDENCE

We confirm to Mayor and Council that we are independent of the District. Our letter to Mayor and Council discussing our independence is included as part of the additional materials attached to this report.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the consolidated financial statements considered separately.

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, included as additional materials following this report, 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.

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.

APPENDIX C – Summary of Significant Differences

SIGNIFICANT ADJUSTED DIFFERENCES			
Differences Noted	Consolidated Financial Statement Item(s) Affected	Adjustment to Statement of Financial Position	Adjustment to Annual Surplus
Rural dividend grant allocated to accounts payable rather than deferred revenue	Accounts payable overstated Deferred revenue understated	-	-
Total Adjusted Differences (Income Effect)			-

SIGNIFICANT UNADJUSTED DIFFERENCES			
Differences Noted	Consolidated Financial Statement Item(s) Affected	Adjustment to Statement of Financial Position	Adjustment to Annual Surplus
Financial statements were unbalanced, unknown amount to balance	Expenses understated Opening equity understated	(66,797)	(66,797)
		-	-
Total Unadjusted Differences (Income Effect)			(66,797)

Canadian generally accepted auditing standards require that we request of management and Mayor and Council that identified unadjusted differences be corrected. We have made this request of management, however based on both quantitative and qualitative considerations management has decided not to correct those identified differences that remain unadjusted. They have represented to us that in their judgment the unadjusted differences are, both individually and in the aggregate, not material to the consolidated financial statements.

We concur with management's representation that the unadjusted differences are not material to the consolidated financial statements and, accordingly, these unadjusted differences have no effect on our auditor's report.

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, 2016 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, 2016, 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

April 25, 2017

MNP LLP

Chartered Professional Accountants

Independence Communication

April 25, 2017

Mayor and Council
District of Port Hardy
P O Box 68
Port Hardy, BC V0N 2P0

Dear Sirs/Mesdames:

We have been engaged to audit the consolidated financial statements of District of Port Hardy ("the District") as at December 31, 2016 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance* requires that we communicate with you matters that are significant to our engagement. One such matter is relationships between the District and its related entities or persons in financial reporting oversight roles at the District and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body 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 or a related entity;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
- (d) Economic dependence on a client; and
- (e) Provision of non-assurance 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, 2016 to April 25, 2017.

We hereby confirm that MNP is independent with respect to the District within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of British Columbia as of April 25, 2017.

This report is intended solely for the use of Mayor and Council, 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.

Sincerely,



MNP LLP
Chartered Professional Accountants

/rw

District of Port Hardy

Consolidated Financial Statements

December 31, 2016



District of Port Hardy

December 31, 2016

CONTENTS

	<u>Page</u>
Financial Statements	
Managements' Report	
Independent Auditors' Report	
Consolidated Statement of Financial Position	1
Consolidated Statement of Operations	2
Consolidated Statement of Changes in Net Financial Assets	3
Consolidated Statement of Cash Flows	4
Notes to the Consolidated Financial Statements	6
Schedules	

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, 2016 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, 2016 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, 2016

	2016	2015
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 4,456,508	\$ 4,204,175
Accounts receivable (Note 3)	1,677,459	1,616,391
Investment in Government business enterprises (Note 19)	87,385	96,605
Tax sale properties	18,910	19,467
Land held for resale	506	506
	<u>6,240,768</u>	<u>5,937,144</u>
Financial Liabilities		
Accounts payable and other liabilities (Note 4)	669,150	590,213
Tax sale properties deposits	3,521	3,948
Performance deposits and bonds (Note 5)	21,650	15,994
Deferred revenue (Note 6)	254,691	143,886
Capital leases (Note 8)	-	117,746
Capital borrowing (Note 21)	132,437	123,575
Long-term debt (Note 9)	237,098	465,077
	<u>1,318,547</u>	<u>1,460,439</u>
Net Financial Assets	<u>4,922,221</u>	<u>4,476,705</u>
Non-Financial Assets		
Tangible capital assets (Note 10)	37,804,282	38,390,513
Inventory	161,032	140,383
Prepays	52,847	57,650
	<u>38,018,161</u>	<u>38,588,546</u>
Accumulated Surplus (Schedule 3)	<u>\$ 42,940,382</u>	<u>\$ 43,065,251</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, 2016

	2016	2016 Budget (Note 12)	2015
Revenue			
Taxes	\$ 2,531,258	\$ 2,554,818	\$ 2,425,021
Payments in lieu of taxes	165,794	164,334	165,229
Sewer user rates	1,047,825	1,043,960	1,027,216
Water user rates	1,293,346	1,229,383	1,231,129
Sale of services	1,164,674	1,191,689	1,193,203
Other revenue	439,232	293,390	455,470
Development contributions	61,041	-	-
Government transfers from other governments	846,514	594,650	762,426
	<u>7,549,684</u>	<u>7,072,224</u>	<u>7,259,694</u>
Expenses			
General government services	986,768	1,013,839	927,853
Transportation services	1,783,386	1,960,445	1,738,839
Protective services	446,987	485,426	460,658
Environmental health services	250,704	269,854	265,487
Recreation and culture	1,361,308	1,416,089	1,322,295
Community development	102,389	107,646	93,595
Water	1,346,812	1,469,432	1,338,782
Sewer	1,396,199	1,472,379	1,364,889
	<u>7,674,553</u>	<u>8,195,110</u>	<u>7,512,398</u>
Annual (deficit)	(124,869)	(1,122,886)	(252,704)
Accumulated surplus, beginning of year	43,065,251	43,065,251	43,317,955
Accumulated surplus, end of year	<u><u>\$ 42,940,382</u></u>	<u><u>\$41,942,365</u></u>	<u><u>\$ 43,065,251</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, 2016

	2016	2016 Budget (Note 12)	2015
Annual surplus (deficit)	\$ (124,869)	\$ (1,122,886)	\$ (252,704)
Acquisition of tangible capital assets	(1,208,527)	(3,030,950)	(532,777)
Amortization	1,853,138	1,800,000	1,812,522
Loss on disposal of tangible capital assets	2,661	-	-
Capital Lease Adjustment	-	-	60,768
Development contributions	(61,041)	-	-
	586,231	(1,230,950)	1,340,513
Acquisition of prepaid expense	(52,847)	-	(57,650)
Acquisition of supplies inventory	(20,649)	-	55,792
Use of prepaid expense	57,650	-	68,687
	(15,846)	-	66,829
Change in net financial assets	445,516	(2,353,836)	1,154,638
Net financial assets, beginning of year	4,476,705	4,476,705	3,322,067
Net financial assets, end of year	\$ 4,922,221	\$ 2,122,869	\$ 4,476,705

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, 2016

	2016	2015
Cash Provided By (Used In)		
Operating Activities		
Annual (Deficit)	\$ (124,869)	\$ (252,704)
Increase (Decrease) in Non Financial Assets		
Amortization	1,853,138	1,812,522
Capital lease adjustment	-	60,769
(Gain) Loss on disposal of assets	2,161	(17,976)
Developer Contributions	(61,041)	-
Change in inventory	(20,649)	55,792
Change in prepaids	4,803	11,037
	<u>1,653,543</u>	<u>1,669,440</u>
(Increase) Decrease in Financial Assets and Liabilities		
Change in accounts receivable	(61,068)	(30,762)
Change in investment in Government business enterprises	9,220	115,272
Change in tax sale properties	557	(5,958)
Change in accounts payable	78,937	32,059
Change in tax sale deposits	(427)	(3,817)
Change in performance deposits and bonds	5,656	3,200
Change in deferred revenue	110,805	8,804
Actuarial adjustment on debt	(61,398)	(52,629)
	<u>1,735,825</u>	<u>1,735,609</u>
Cash provided by operating transactions	1,735,825	1,735,609
Capital Activities		
Acquisition of tangible capital assets	(1,208,527)	(532,777)
Proceeds on sale of tangible capital assets	500	17,976
	<u>(1,208,027)</u>	<u>(514,801)</u>
Financing Activities		
Capital lease repaid	(158,192)	(556,184)
Debenture debt repaid	(168,362)	(166,582)
Capital borrowing	51,089	95,200
	<u>(275,465)</u>	<u>(627,566)</u>
Net increase in cash and cash equivalents	252,333	593,242
Cash and cash equivalents at beginning of period	4,204,175	3,610,933
Cash and cash equivalents at end of period	<u>\$ 4,456,508</u>	<u>\$ 4,204,175</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, 2016

	<u>2016</u>	<u>2015</u>
Consolidated Statement of Cash Flows continued.		
Represented by		
Cash	\$ 253,448	\$ 383,150
Investments	4,203,060	3,821,025
	<u>\$ 4,456,508</u>	<u>\$ 4,204,175</u>
Supplemental information		
Interest paid	\$ 160,386	\$ 176,485
Interest received	\$ 56,232	\$ 60,158

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, 2016

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 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, 2016

1. Significant Accounting Policies:

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, 2016

1. Significant Accounting Policies:

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	3 - 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.

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, 2016

1. Significant Accounting Policies:

k) Recent Accounting Pronouncements

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 Assets 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, 2016

1. Significant Accounting Policies:

k) Recent Accounting Pronouncements

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, 2016

1. Significant Accounting Policies:

k) Recent Accounting Pronouncements

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, 2016

2. Cash and cash equivalents

	2016	2015
General revenue fund	\$ 4,444,467	\$ 4,192,229
Reserve accounts	12,041	11,946
	<u>\$ 4,456,508</u>	<u>\$ 4,204,175</u>

The above balances include Municipal Finance Authority money market account \$4,203,061 (2015 - \$3,821,025), carried at cost, which is also equal to market value.

3. Accounts Receivable

	2016	2015
Property taxes	\$ 594,957	\$ 557,540
Other Governments	471,945	438,093
Trade and other	956,315	893,532
	<u>2,023,217</u>	<u>1,889,165</u>
Less allowance for doubtful accounts	(345,758)	(272,774)
	<u>\$ 1,677,459</u>	<u>\$ 1,616,391</u>

Wharf receivables total \$230,860 (2015 - \$257,186). Of this amount \$227,117 (2015 - \$217,748) is 90 days overdue and has been recorded in allowance for doubtful accounts above. A total of \$47,858 in taxes receivable have been recorded as doubtful for the first time in 2016 and the remainder of 2016 doubtful accounts represents general accounts receivable.

4. Accounts Payable and other liabilities

	2016	2015
Other Governments	\$ 60,409	\$ 17,437
Accrued wages and benefits	269,397	234,271
Trade and other	339,344	338,505
	<u>\$ 669,150</u>	<u>\$ 590,213</u>

5. Performance deposits and bonds

	2016	2015
Other deposits	\$ 21,650	\$ 15,994

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2016

6. Deferred Revenue

	2016	2015
Prepaid taxes	\$ 49,924	\$ 39,194
Prepaid fees and charges	48,464	50,101
Other deferred revenue	156,303	54,591
	<u>\$ 254,691</u>	<u>\$ 143,886</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)

	2016	2015
Opening balance of unspent funds	\$ 623,900	\$ 535,025
Add: Amount received during the year	221,576	214,357
Interest earned	4,044	5,790
Less: Amount spent on eligible projects	(427,128)	(131,272)
Closing balance of unspent funds	<u>\$ 422,392</u>	<u>\$ 623,900</u>

8. Capital Leases

The Municipality may occasionally lease fire and other equipment 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).

In 2016 all leases were either paid out or converted to conventional loans as the Municipal Finance Authority discontinued their equipment leasing program, consequently there are no longer any future lease payments.

Total interest expense during the year was \$963 (2015 \$5,066) and interest rates were constant at 2.00% (2.00% in 2015).

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2016

9. Long-Term Debt

	Balance, Beginning of year	Additions	Principal repayments and actuarial recognized	Balance, end of year
Sewer Fund				
Long-term debt	\$ 465,077	\$ -	\$ (227,979)	\$ 237,098

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

2017	\$ 166,582
------	------------

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)

	2016	2015
Land and Improvements	\$ 4,839,191	\$ 4,849,803
Buildings	3,701,135	3,570,088
Furniture and Equipment	7,384	206
Vehicles and Machinery	1,184,617	1,325,949
Computer Hardware and Software	53,179	7,420
Engineering Structures		
Roads	12,367,004	12,622,578
Water	5,955,154	6,051,899
Sewer	9,696,618	9,962,570
	\$ 37,804,282	\$ 38,390,513

The cost of capital assets under construction in 2016 is \$NIL (\$NIL in 2015).

The net book value of leased assets in 2016 is \$NIL (\$760,493 in 2015)

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, 2016

11. Pension Liability

The employer and its employees contribute to the Municipal Pension Plan, (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2015 the plan has about 189,000 active members and approximately 85,000 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, 2015 indicated a \$2,224 billion funding surplus for basic pension benefits on a going concern basis.

The District of Port Hardy paid \$156,067 (2015 - \$149,889) for employer contributions while employees contributed \$151,969 (2015 - \$143,603) to the plan in fiscal 2016.

The next valuation will be as at December 31, 2018, with results available in 2019.

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, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

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 12, 2016, except in regard to budget amounts for amortization and tangible capital assets.

Annual surplus, as adopted April 12, 2016	<u>\$ -</u>
Add:	
Aquisition of tangible capital assets	3,030,950
Debenture principal repayments	302,903
Less:	
Debenture debt issue	(1,100,000)
Interfund transfers	<u>(3,356,739)</u>
Annual deficit restated	<u><u>\$ (1,122,886)</u></u>

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2016

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.

	2016	2015
School District 85	\$ 1,348,033	\$ 1,402,443
Mount Waddington Regional District	370,696	369,299
Mount Waddington Regional Hospital District	133,032	132,365
B.C. Assessment Authority	24,363	26,778
Municipal Finance Authority	82	85
Provincial Government - Police Tax	178,403	178,392
Vancouver Island Regional Library	146,148	145,808
	<u>\$ 2,200,757</u>	<u>\$ 2,255,170</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, 2016, the balance of funds held in trust was \$37,455 (2015 - \$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, 2016 is \$30,423 (2015 - \$26,288).

Sick leave liability at December 31, 2016 is \$107,582 (2015 - \$89,430).

Severance liability at December 31, 2016 is \$45,482 (2015 - \$41,900).

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2016

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 incurred significant storm damage in the past. The facility is currently operating within the effluent treatment parameters and therefore no liability for contaminated sites is being accrued, approximately 100 meter of the outfall pipe still requires replacement. The District has established that repairs can be made at a cost of approximately \$75,000 and this is anticipated to be completed during 2017. As at December 31, 2016 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, 2016

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>2016</u>	<u>2015</u>
Sewer Fund		
Cash Deposits	<u>\$ 27,000</u>	<u>\$ 26,266</u>

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2016

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, 2016

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. District of Port Hardy owns a one third share.

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>2016</u>	<u>2015</u>
Summary of investment in Government Businesses		
NICFLP	\$ 82,454	\$ 91,565
NICF LTD.	4,931	5,040
	<u>87,385</u>	<u>96,605</u>
Summary of results of operations		
NICFLP	(4,508)	(4,486)
NICF LTD.	(45)	(45)
Other Adjustments	(4,667)	-
	<u>\$ (9,220)</u>	<u>\$ (4,531)</u>

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

	<u>2016</u>	<u>2015</u>
Financial Position		
Current and other assets	\$ 291,926	\$ 301,816
Current and other liabilities	29,776	11,955
Partner's capital	<u>262,150</u>	<u>289,861</u>
Results of operations		
Revenues	30,182	26,725
Expenses	43,842	40,319
Net surplus (loss)	<u>\$ (13,660)</u>	<u>\$ (13,594)</u>

During the year the District received a dividend from the NICFLP of \$NIL (2015 - \$110,741). In 2016 NICFLP recorded a Prior Period Liability of \$14,000 recognizing an obligation to pay for all costs related to after logging planting (undertaken by Western Forest Products) until free growing status is reached. The expense was matched against 2014 revenue in the records of NICFLP and is shown separately in 2016 in the schedules above. District of Port Hardy's one third share is shown as an adjustment of -\$4,667

District of Port Hardy

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2016

20. Comparative Figures

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

21. Capital Borrowing

Short term financing is secured through the Municipal Finance Authority for capital initiatives approved under loan authorizations. Interest is calculated daily on a variable rate basis at a .5% spread on top of the CDOR (Canadian Dealer Offered Rate) rate. In 2016 the rate varied between 1.31 % and 1.45%. At December 31, 2016 the rate was 1.45%. Short-term borrowing is replaced by long-term debt periodically when balances and interest rates are considered appropriate.

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

	Equipment Financing	Short Term	Total
2017	\$ 38,112	\$ 18,800	\$ 56,912
2018	33,306	-	33,306
2019	29,688	-	29,688
2020	11,172	-	11,172
2021	1,359	-	1,359
	\$ 113,637	\$ 18,800	\$ 132,437

22. Subsequent events

During 2016 the District of Port Hardy undertook an Alternative Approval Process with the intent of authorizing borrowing \$1.1 million with an amortization period of 12 years for the purchase of a new Fire Truck.

That Alternative Approval Process resulted in no objection or elector response forms being received, with the result that Council was empowered to borrow the required sum.

In 2016 responses to a request for proposals were evaluated and in 2017 a sales order was agreed to and signed with one of the respondents. Borrowing from the Municipal Finance Authority will be undertaken in mid 2017 in the amount of \$1.1 million with repayments over a twelve(12) year period.

District of Port Hardy

Consolidated Schedule of Segmented Disclosure

For the Year Ended December 31, 2016

Schedule 1
(Note 18)

	General government services		Transportation services		Protective services		Environmental health services		Recreation and culture	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues										
Taxes	\$ 2,531,258	\$ 2,425,021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payments in lieu of taxes	165,794	165,229	-	-	-	-	-	-	-	-
Sale of services	-	-	341,072	340,952	40,136	35,712	262,915	258,138	205,337	206,544
Government transfers from other governments	524,747	538,679	-	-	13,475	-	-	-	59,790	-
Development contributions	-	-	-	-	-	-	-	-	-	-
Actuarial recognized	-	-	-	-	-	-	-	-	-	-
Other revenue	176,947	163,316	34,200	32,850	52,903	46,697	2,350	2,091	36,487	35,948
	3,398,746	3,292,245	375,272	373,802	106,514	82,409	265,265	260,229	301,614	242,492
Expenses										
Salaries and benefits	791,705	751,004	497,032	449,827	108,176	119,216	14,508	12,174	655,890	646,094
Goods and services	134,841	116,552	380,816	403,395	158,681	178,659	31,079	32,872	322,701	321,124
Contracted services	29,870	26,213	214,215	208,994	94,622	79,039	205,117	220,441	128,824	112,672
Interest	2,324	3,562	-	-	-	-	-	-	-	-
Loss on Government business enterprise	-	-	-	-	-	-	-	-	-	-
Loss on disposal of assets	-	-	-	-	-	-	-	-	2,660	-
Amortization	28,028	30,522	691,323	676,623	85,508	83,744	-	-	251,233	242,405
	986,768	927,853	1,783,386	1,738,839	446,987	460,658	250,704	265,487	1,361,308	1,322,295
Net Surplus (Deficit)	\$ 2,411,978	\$ 2,364,392	\$ (1,408,114)	\$ (1,365,037)	\$ (340,473)	\$ (378,249)	\$ 14,561	\$ (5,258)	\$ (1,059,694)	\$ (1,079,803)

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, 2016

Schedule 1
(Note 18)

	Community development		Water		Sewer		Consolidated	Budget	Consolidated	Budget
	2016	2015	2016	2015	2016	2015	Actual	2016	Actual	2015
Revenues										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,531,258	\$ 2,554,818	\$ 2,425,021	\$ 2,428,129
Payments in lieu of taxes	-	-	-	-	-	-	165,794	164,334	165,229	163,580
Sale of services	-	-	1,470,261	1,439,366	1,186,125	1,170,835	3,505,846	3,465,032	3,451,547	3,346,609
Government transfers from other governments	248,502	223,747	-	-	-	-	846,514	594,650	762,426	475,000
Development contributions	-	-	61,041	-	-	-	61,041	-	-	-
Actuarial recognized	-	-	-	-	61,397	52,629	61,397	-	52,629	-
Other revenue	37,343	33,223	22,599	76,036	15,005	12,681	377,834	293,390	402,842	283,170
	285,845	256,970	1,553,901	1,515,402	1,262,527	1,236,145	7,549,684	7,072,224	7,259,694	6,696,488
Expenses										
Salaries and benefits	16	-	361,928	296,795	263,400	222,929	2,692,655	2,863,634	2,498,039	2,550,516
Goods and services	14,079	18,880	577,502	609,560	393,849	414,368	2,013,548	2,343,426	2,095,410	2,183,482
Contracted services	79,074	70,184	39,484	52,708	151,740	155,160	942,946	1,078,460	925,411	1,029,379
Interest	-	-	136	23,895	157,926	149,029	160,386	109,590	176,486	133,940
Loss on Government business enterprise	9,220	4,531	-	-	-	-	9,220	-	4,531	-
Loss on disposal of assets	-	-	-	-	-	-	2,660	-	-	-
Amortization	-	-	367,762	355,824	429,284	423,403	1,853,138	1,800,000	1,812,521	1,650,000
	102,389	93,595	1,346,812	1,338,782	1,396,199	1,364,889	7,674,553	8,195,110	7,512,398	7,547,317
Net Surplus (Deficit)	\$ 183,456	\$ 163,375	\$ 207,089	\$ 176,620	\$ (133,672)	\$ (128,744)	\$ (124,869)	\$ (1,122,886)	\$ (252,704)	\$ (850,829)

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, 2016

Schedule 2

	Costs					Accumulated Amortization					2016	2015
	Add		Less			Add		Less				
	Opening Balance	Additions	Construction In progress	Disposals	Closing Balance	Opening Balance	Amortization	Accumulated Amortization on Disposals	Closing Balance			
Land and Land Improvements	\$ 6,825,877	\$ 110,227	\$ -	\$ (27,097)	\$ 6,909,007	\$ 1,976,074	\$ 118,178	\$ (24,436)	\$ 2,069,816	\$ 4,839,191	\$ 4,849,803	
Buildings	9,938,528	348,843	-	-	10,287,371	6,368,440	217,796	-	6,586,236	3,701,135	3,570,088	
Furniture and Equipment	397,093	7,975	-	-	405,068	396,887	797	-	397,684	7,384	206	
Vehicles and Machinery	3,892,124	15,976	-	(65,000)	3,843,100	2,566,175	157,308	(65,000)	2,658,483	1,184,617	1,325,949	
Computer Hardware and Software	159,982	56,185	-	-	216,167	152,562	10,426	-	162,988	53,179	7,420	
Engineering Structures												
Roads	24,802,837	296,013	-	-	25,098,850	12,180,259	551,587	-	12,731,846	12,367,004	12,622,578	
Water	13,146,809	271,017	-	-	13,417,826	7,094,910	367,762	-	7,462,672	5,955,154	6,051,899	
Sewer	16,290,872	163,332	-	-	16,454,204	6,328,302	429,284	-	6,757,586	9,696,618	9,962,570	
	\$ 75,454,122	\$ 1,269,568	\$ -	\$ (92,097)	\$ 76,631,593	\$ 37,063,609	\$ 1,853,138	\$ (89,436)	\$ 38,827,311	\$ 37,804,282	\$ 38,390,513	

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, 2016

Schedule 3

	2016	2015
Surplus		
Invested in tangible capital assets	\$ 37,434,747	\$ 37,684,115
Operating funds	4,467,904	4,116,214
	<u>41,902,651</u>	<u>41,800,329</u>
Reserves		
Buildings	72,281	105,367
Computers	4,825	20,923
Equipment replacement	186,948	226,766
General capital works	166,400	170,309
Park development	39,154	38,844
Recreation facilities	112,200	110,130
Sidewalks and roads	21,120	96,454
Tax sale	17,152	17,152
	<u>620,080</u>	<u>785,945</u>
Water Reserve Fund		
Water capital works	163,441	162,149
Sewer Reserve Fund		
Sewer capital works	254,210	316,828
	<u>1,037,731</u>	<u>1,264,922</u>
Accumulated Surplus, end of year	<u><u>\$ 42,940,382</u></u>	<u><u>\$ 43,065,251</u></u>

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

DISTRICT OF PORT HARDY
Statement of Financial Information
For the year ended December 31, 2016



INDEX

Checklist - Statement of Financial Information (SOFI)

Audited Financial Statements

Schedule of Guarantee and Indemnity Agreements

Schedule of Remuneration and Expenses

Statement of Severance Agreements

Schedule of Goods and Services

Permissive Tax Exemptions

Management Report

Approval of Financial Information

DISTRICT OF PORT HARDY
Schedule of Guarantee and Indemnity Agreements
For the year ended December 31, 2016

This organization has not given any guarantees or indemnities under the *Guarantees and Indemnities Regulation*.

DISTRICT OF PORT HARDY
Schedule of Remuneration and Expenses
For the year ended December 31, 2016

Elected Officials		<u>Remuneration</u>	<u>Expenses</u>
Bood, Hank	Mayor	24,776.04	8,033.93
Corbett-Labatt, Pat	Councillor	12,388.08	4,498.41
Dugas, Dennis	Councillor	12,388.08	2,516.90
Hemphill, Jessie	Councillor	10,323.40	2,594.28
Marcotte, Bruce	Councillor	12,388.08	3,019.27
Robertson, Fred	Councillor	12,388.08	4,266.13
Tidbury, John	Councillor	12,388.08	5,044.98
Wishart, Leightan	Councillor	2,064.68	0.00
		<u>99,104.52</u>	<u>29,973.92</u>

Employees			
Farahbakshsh, Abbas	Director of Operations	112,136.30	4,588.70
Henschke, Cory	Utilities Operator	76,732.28	0.00
Jewell, Joe	Utilities Supervisor	104,602.45	4,140.33
Le Fort, Roland	Operator	83,512.34	0.00
Maas, Adrian	Director of Finance	92,084.63	1,766.89
McCarrick, Allison	Chief Administrative Officer	126,520.43	5,003.32
Mercer, Sean	Manager of Operations	88,798.28	1,132.30
Nelson-Smith, Heather	Director of Corporate Services	87,137.58	4,045.07
Reusch, Justin	Chief Operator	89,821.02	1,373.97
Consolidated total of other employees with remuneration and expenses of \$75,000 or less		<u>1,279,929.30</u>	<u>32,306.46</u>
		<u>2,141,274.61</u>	<u>54,357.03</u>

Reconciliation

Elected officials' total remuneration	99,104.52
Employees' total remuneration	2,141,274.61
	<u>2,240,379.13</u>
Variance	452,275.87
Total salaries and benefits per Consolidated Financial Statements, Schedule 1	<u>2,692,655.00</u>

Payroll variance

Overhead is included in the Financial Statements but not in the T-4 remuneration.

A small portion of Labour costs is capitalized and not expensed - also some may be charged to 3rd parties. Employer statutory contributions account for the balance of the variance.

DISTRICT OF PORT HARDY
Statement of Severance Agreements
For the year ended December 31, 2016

There were no severance agreements under which payment commenced between the District of Port Hardy and its non-unionized employees during fiscal year 2016.

DISTRICT OF PORT HARDY
Schedule of Payments Made to Suppliers
For the year ended December 31, 2016

Suppliers who received aggregate payments exceeding \$25,000

ANA'S HARDY CLEAN	28,588.38
ANDREW SHERET LTD	30,084.31
ARIES SECURITY LTD.	49,934.85
B.C. HYDRO (Minister of Finance)	528,460.95
CAN-DIVE CONSTRUCTION LTD.	56,201.25
Canwest Propane	33,239.37
CHEVRON CANADA LTD.	60,010.05
Corix Control Solutions LP	37,471.84
FORT RUPERT CURLING CLUB	27,014.85
FOX'S DISPOSAL SERVICES LTD.	225,007.70
GEISLER CONSTRUCTION	26,066.63
I.C.B.C.	42,814.00
K & K ELECTRIC LTD.	85,313.55
Lumca Inc.	53,636.10
MCELHANNEY CONSULTING SERVICES LTD.	30,445.78
Mike Balcke Contracting Ltd.	28,381.50
MINISTER OF FINANCE	50,785.66
MNP	36,382.50
MUNICIPAL INSURANCE ASSOCIATION OF BC	178,161.00
MUNICIPAL PENSION PLAN	319,893.20
O.K. Paving Company	136,248.00
Orach Enterprises Ltd.	49,081.30
PACIFIC BLUE CROSS	133,579.57
PACIFICUS BIOLOGICAL SERVICES LTD.	55,506.24
PORT HARDY BULLDOZING LTD.	113,165.91
Praxair Distribution	58,176.25
Quatesi Investment&Development Co. Ltd.	29,598.97
Receiver General for Canada	598,179.35
REGIONAL DISTRICT OF MT WADDINGTON	76,343.82
Seaway Ventures Ltd.	128,161.68
Strategic Natural Resource Consultants	61,111.05
TELUS	63,690.69
Unitech Construction Management Ltd.	248,656.50
UNIVAR CANADA LTD.	78,532.66
Waterhouse Environmental Services Corp.	169,917.49
Wekan Holdings Ltd. DBA	27,036.80
WORKERS' COMPENSATION BOARD OF BC	34,633.22
Total paid to suppliers who received aggregate payment of \$25,000 or more	<u>3,989,512.97</u>
Total paid to suppliers who received aggregate payments of \$25,000 or less	1,363,603.39
Total of payments to suppliers for grants exceeding \$25,000	99,237.00
Less: expenses paid on behalf of elected official & employees	<u>(84,330.95)</u>
Total	<u>5,368,022.41</u>
Reconcile:	
Total aggregate payments exceeding \$ 25,000	3,989,512.97
Total consolidated payments of \$ 25,000 or less	<u>1,378,509.44</u>
	<u>5,368,022.41</u>
Expenses from the Consolidated Statement of Operations	7,674,553.00
Adjustments - including amortization and capital project expenditures	<u>2,306,530.59</u>
	<u>5,368,022.41</u>

DISTRICT OF PORT HARDY
Schedule of Property Tax Permissive Exemptions
For the year ended December 31, 2016

Organization	Total
Fort Rupert Curling Club	6,567.19
Grassroots Garden Society	539.18
North Island Crisis and Counseling Centre Society	4,352.10
Pentecostal Assemblies of Canada	4,285.87
Port Hardy Baptist Church	3,874.19
Port Hardy Chamber of Commerce	4,040.96
Port Hardy Congr Jehovah's Witnesses	1,275.33
Port Hardy Ecumenical Society	2,226.09
Port Hardy Heritage Society	5,166.50
Port Hardy Hospital Auxiliary	2,972.35
Rainbow Country Daycare Society	2,273.13
Royal Canadian Legion	2,428.00
Seventh Day Adventist Church	27,867.69
St. Bonaventure Catholic Church	1,522.28
Tri Port Motorsport Association	1,101.19
Vancouver Island Health Authority	116,351.20
PH Seniors Housing	1,364.11
	<u>188,207.37</u>

District of Port Hardy

Management Report

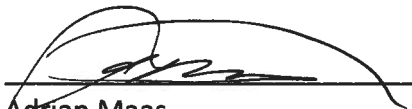
The Financial Statements contained in this Statement of Financial Information under the *Financial Information Act* have been prepared by management in accordance with generally accepted accounting principles or stated accounting principles, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Municipal Council is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Council. Council reviews the financial statements on a monthly basis.

The external auditors, MNP, LLP, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination does not relate to the other schedules and statements required by the Act. 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 in all material respects. The external auditors have full and free access to the records of the Municipality.

On behalf of the District of Port Hardy




Adrian Maas
Director of Financial Services

DISTRICT OF PORT HARDY
Statement of Financial Information Approval
For the year ended December 31, 2016

The undersigned, as authorized by the *Financial Information Regulation*,
Schedule 1, subsection 9(2), approves all the statements and schedules
included in this Statement of Financial Information, produced under the *Financial
Information Act*.



Adrian Maas
Director of Financial Services
April 25, 2016



Hank Bood
Mayor
April 25, 2016