

# District of Port Hardy

## Consolidated Financial Statements

December 31, 2017



# District of Port Hardy

December 31, 2017

## CONTENTS

	<u>Page</u>
<b>Financial Statements</b>	
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.

  
\_\_\_\_\_  
Lynda Sowerby, BComm  
Director of Finance

  
\_\_\_\_\_  
Hank Bood  
Mayor

## Independent Auditors' Report

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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, 2017 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, 2017, 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 8, 2018

*MNP LLP*

Chartered Professional Accountants

# District of Port Hardy

## Consolidated Statement of Financial Position

As At December 31, 2017

	2017	2016
<b>Financial Assets</b>		
Cash and cash equivalents (Note 2)	\$ 7,394,802	\$ 4,456,508
Accounts receivable (Note 3)	1,686,249	1,677,459
Investment in Government business enterprises (Note 17)	48,340	87,385
Tax sale properties	9,590	18,910
Land held for resale	506	506
	<u>9,139,487</u>	<u>6,240,768</u>
<b>Financial Liabilities</b>		
Accounts payable and other liabilities (Note 4)	1,503,045	669,150
Tax sale properties deposits	-	3,521
Deposits	39,100	21,650
Deferred revenue (Note 5)	882,217	254,691
Capital borrowing (Note 19)	1,164,175	132,437
Long-term debt (Note 7)	-	237,098
	<u>3,588,537</u>	<u>1,318,547</u>
<b>Net Financial Assets</b>	<u>5,550,950</u>	<u>4,922,221</u>
<b>Non-Financial Assets</b>		
Tangible capital assets (Note 8)	39,149,007	37,804,282
Inventory	152,644	161,032
Prepays	32,202	52,847
	<u>39,333,853</u>	<u>38,018,161</u>
<b>Accumulated Surplus (Schedule 3)</b>	<u>\$ 44,884,803</u>	<u>\$ 42,940,382</u>

Commitments and contingencies (Note 14)

Approved by:

  
Lynda Sowerby, BComm  
Director of Finance

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, 2017

	2017	2017 Budget (Note 10)	2016
<b>Revenue</b>			
Taxes	\$ 2,756,671	\$ 2,754,846	\$ 2,531,258
Payments in lieu of taxes	175,980	171,519	165,794
Sewer user rates	1,082,710	1,075,478	1,047,825
Water user rates	1,333,372	1,266,264	1,293,346
Sale of services	1,157,255	1,215,523	1,164,674
Other revenue	838,983	299,501	439,232
Income from investment in Government business enterprises (Note 17)	734,261	-	-
Development contributions	-	-	61,041
Government transfers from other governments	1,827,596	12,987,000	846,514
	<u>9,906,828</u>	<u>19,770,131</u>	<u>7,549,684</u>
<b>Expenses</b>			
General government services	1,008,437	1,021,064	986,768
Transportation services	1,853,171	1,992,982	1,783,386
Protective services	518,033	509,500	446,987
Environmental health services	248,738	275,250	250,704
Recreation and culture	1,461,725	1,504,519	1,361,308
Community development	177,987	186,364	102,389
Water	1,355,641	1,491,460	1,346,812
Sewer	1,338,675	1,473,432	1,396,199
	<u>7,962,407</u>	<u>8,454,571</u>	<u>7,674,553</u>
Annual surplus (deficit)	1,944,421	11,315,560	(124,869)
Accumulated surplus, beginning of year	42,940,382	42,940,382	43,065,251
<b>Accumulated surplus, end of year</b>	<u><u>\$ 44,884,803</u></u>	<u><u>\$54,255,942</u></u>	<u><u>\$ 42,940,382</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, 2017

	2017	2017 Budget (Note 10)	2016
Annual surplus (deficit)	\$ 1,944,421	\$11,315,560	\$ (124,869)
Acquisition of tangible capital assets	(3,350,174)	20,357,120)	(1,208,527)
Amortization	1,869,979	1,800,000	1,853,138
(Gain) Loss on disposal of tangible capital assets	(332,748)	-	2,661
Proceeds on sale of tangible capital assets	468,218	-	-
Development contributions	-	-	(61,041)
	(1,344,725)	18,557,120)	586,231
Acquisition of prepaid expense	(32,202)	-	(52,847)
Use (Acquisition) of supplies inventory	8,388	-	(20,649)
Use of prepaid expense	52,847	-	57,650
	29,033	-	(15,846)
Change in net financial assets	628,729	(7,241,560)	445,516
Net financial assets, beginning of year	4,922,221	4,922,221	4,476,705
Net financial assets, end of year	\$ 5,550,950	\$ (2,319,339)	\$ 4,922,221

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, 2017

	2017	2016
<b>Cash Provided By (Used In)</b>		
Operating Activities		
Annual ( Deficit )	\$ 1,944,421	\$ (124,869)
Increase (Decrease) in Non Financial Assets		
Amortization	1,869,979	1,853,138
(Gain) Loss on disposal of assets	(332,748)	2,161
Developer Contributions	-	(61,041)
Change in inventory	8,388	(20,649)
Change in prepaids	20,645	4,803
	<u>3,510,685</u>	<u>1,653,543</u>
(Increase) Decrease in Financial Assets and Liabilities		
Change in accounts receivable	(8,790)	(61,068)
Change in investment in Government business enterprises	39,045	9,220
Change in tax sale properties	9,320	557
Change in accounts payable	833,895	78,937
Change in tax sale deposits	(3,521)	(427)
Change in performance deposits and bonds	17,450	5,656
Change in deferred revenue	627,526	110,805
Actuarial adjustment on debt	(70,516)	(61,398)
	<u>4,955,094</u>	<u>1,735,825</u>
<b>Cash provided by operating transactions</b>		
Capital Activities		
Acquisition of tangible capital assets	(3,350,174)	(1,208,527)
Proceeds on sale of tangible capital assets	468,218	500
	<u>(2,881,956)</u>	<u>(1,208,027)</u>
Financing Activities		
Capital borrowing repaid	(174,087)	(158,192)
Debenture debt repaid	(166,582)	(168,362)
Capital borrowing draws	1,205,825	51,089
	<u>865,156</u>	<u>(275,465)</u>
Net increase in cash and cash equivalents	2,938,294	252,333
Cash and cash equivalents at beginning of period	4,456,508	4,204,175
Cash and cash equivalents at end of period	<u>\$ 7,394,802</u>	<u>\$ 4,456,508</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, 2017

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	2017	2016
Consolidated Statement of Cash Flows continued.		
Represented by		
Cash	\$ 331,545	\$ 253,448
Investments	7,063,257	4,203,060
	<u>\$ 7,394,802</u>	<u>\$ 4,456,508</u>
Supplemental information		
Interest paid	\$ 100,263	\$ 160,386
Interest received	\$ 108,113	\$ 56,232

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, 2017

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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 17).

#### 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, 2017

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### 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. Actual results may differ from estimates.

# District of Port Hardy

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017

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### 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
<b>Engineering Structures</b>	
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. As at December 31, 2017 the District has not recorded any liability for contaminated sites as no such sites have been identified.

#### 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

# District of Port Hardy

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017

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### 1. Significant Accounting Policies:

#### k) Recent Accounting Pronouncements

statements.

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, 2017

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### 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, 2017

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### 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, 2017

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### 2. Cash and cash equivalents

	2017	2016
Cash	\$ 331,545	\$ 253,447
Investments	7,063,257	4,203,061
	<u>\$ 7,394,802</u>	<u>\$ 4,456,508</u>

The above balances include Municipal Finance Authority money market account \$7,063,257 (2016 - \$4,203,061), carried at cost, which is also equal to market value.

### 3. Accounts Receivable

	2017	2016
Property taxes	\$ 661,731	\$ 594,957
Other Governments	387,898	471,945
Trade and other	997,702	956,315
	<u>2,047,331</u>	<u>2,023,217</u>
Less allowance for doubtful accounts	<u>(361,082)</u>	<u>(345,758)</u>
	<u>\$ 1,686,249</u>	<u>\$ 1,677,459</u>

Wharf receivables total \$276,642 (2016 - \$230,860). Of this amount \$250,651 (2016 - \$227,117) is 90 days overdue and has been recorded in allowance for doubtful accounts above. A total of \$53,187 (2016 - \$47,858) in taxes receivable has been recorded as doubtful and the remainder of doubtful accounts represents general accounts receivable.

### 4. Accounts Payable and other liabilities

	2017	2016
Other Governments	\$ 48,909	\$ 60,409
Accrued wages and benefits	291,492	269,397
Trade and other	1,162,644	339,344
	<u>\$ 1,503,045</u>	<u>\$ 669,150</u>

### 5. Deferred Revenue

	2017	2016
Prepaid taxes	\$ 46,374	\$ 49,924
Prepaid fees and charges	52,637	48,464
Other deferred revenue	313,093	156,303
Government transfer	470,113	-
	<u>\$ 882,217</u>	<u>\$ 254,691</u>



# District of Port Hardy

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017

### 6. Federal Gas Tax Funds

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

	2017	2016
Opening balance of unspent funds	\$ 422,392	\$ 623,900
Add: Amount received during the year	223,926	221,576
Interest earned	4,598	4,044
Less: Amount spent on eligible projects	(180,122)	(427,128)
<b>Closing balance of unspent funds</b>	<b>\$ 470,794</b>	<b>\$ 422,392</b>

### 7. Long-Term Debt

	Balance, Beginning of year	Additions	Principal repayments and actuarial recognized	Balance, end of year
<b>Sewer Fund</b>				
Long-term debt	\$ 237,098	\$ -	\$ (237,098)	\$ -

Any long-term debt is payable to the Municipal Finance Authority (MFA). The debt is repayable plus interest (4.82%) with two payments per year. The debt was repaid in 2017.

### 8. Tangible Capital Assets (Schedule 2)

	2017	2016
Land and Improvements	\$ 4,690,526	\$ 4,839,191
Buildings	3,945,626	3,701,135
Furniture and Equipment	5,789	7,384
Vehicles, and Machinery	2,270,821	1,184,617
Computer Hardware and Software	46,634	53,179
Engineering Structures		
Roads	12,079,554	12,367,004
Water	6,597,185	5,955,154
Sewer	9,512,872	9,696,618
	<b>\$39,149,007</b>	<b>\$37,804,282</b>

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, 2017

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### 9. Pension Liability

The District 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, 2016 the plan has about 193,000 active members and approximately 90,000 retired members. Active members include approximately 38,000 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 may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015 indicated a \$2.224 billion funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1.927 billion was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The District of Port Hardy paid \$178,047 (2016 - \$156,067) for employer contributions while employees contributed \$162,819 (2016 - \$151,969) to the plan in fiscal 2017.

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.

### 10. Budget Figures

The budget amounts presented throughout these financial statements are based on the Five Year Financial Plan bylaw adopted by Council on February 14, 2017 to budget amounts for amortization and tangible capital assets.

Annual surplus, as adopted February 14, 2017	<u>\$ -</u>
Add:	
Acquisition of tangible capital assets	20,357,120
Debt principal repayments	332,050
Less:	
Debt incurred	(5,320,000)
Interfund transfers	<u>(4,053,610)</u>
Annual deficit restated	<u><u>\$11,315,560</u></u>

# District of Port Hardy

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017

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### 11. 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.

	2017	2016
School Taxes	\$ 1,311,241	\$ 1,348,033
Mount Waddington Regional District	386,834	370,696
Mount Waddington Regional Hospital District	138,990	133,032
B.C. Assessment Authority	21,287	24,363
Municipal Finance Authority	86	82
Provincial Government - Police Tax	176,659	178,403
Vancouver Island Regional Library	148,500	146,148
	<u>\$ 2,183,597</u>	<u>\$ 2,200,757</u>

### 12. 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, 2017, the balance of funds held in trust was \$38,420 (2016 - \$37,455).

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.

### 13. Employee Benefit Obligations

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, 2017 is \$31,266 (2016 - \$30,423).

Sick leave liability at December 31, 2017 is \$119,823 (2016 - \$107,582).

Severance liability at December 31, 2017 is \$47,087 (2016 - \$45,482).

# District of Port Hardy

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017

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### 14. 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) 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.

### 15. 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. All obligations of this type were paid out in 2017 therefore there are no remaining cash deposits.

Details of the cash deposits on hand are:

	2017	2016
<b>Sewer Fund</b>		
Cash Deposits	\$ -	\$ 27,000

# District of Port Hardy

## Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017

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### 16. 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 and Culture**

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

#### **Environmental Health**

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

#### **Transportation**

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

#### **General Government**

Provides 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, 2017

### 17. 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.

	2017	2016
Summary of investment in Government Businesses		
NICFLP	\$ 36,064	\$ 82,454
NICF LTD.	12,275	4,931
	<u>48,340</u>	<u>87,385</u>
Summary of results of operations		
NICFLP	726,918	(4,508)
NICF LTD.	7,343	(45)
Other Adjustments	-	(4,667)
	<u>\$ 734,261</u>	<u>\$ (9,220)</u>

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

	2017	2016
Financial Position		
Current and other assets	\$ 283,110	\$ 291,926
Current and other liabilities	138,095	29,776
<b>Partners' Capital</b>	<u>145,015</u>	<u>262,150</u>
Results of operations		
Revenues	2,254,124	30,182
Expenses	51,342	43,842
Net surplus (loss)	<u>\$ 2,202,782</u>	<u>\$ (13,660)</u>

During the year the District received a dividend from the NICFLP of \$726,918 (2016 - \$NIL). 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, 2017

### 18. Comparative Figures

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

### 19. Short-term Capital Borrowing

	Balance, Beginning of Year	Additions	Principal repayments	Balance, end of year
Arena Boards	\$ 18,800	\$ -	\$ 18,800	\$ -
2011 Freightliner Dump Truck	10,562	-	10,562	-
2014 Kubota Tractor	23,466	-	23,466	-
2008 Ford E350 Truck	13,952	-	13,952	-
2005 Ford Truck	65,657	-	65,657	-
2017 Fire Ladder Truck	-	1,100,000	39,971	1,060,029
2018 Dodge Dump Truck	-	105,825	1,679	104,146
	<u>\$ 132,437</u>	<u>\$ 1,205,825</u>	<u>\$ 174,087</u>	<u>\$ 1,164,175</u>

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 2017 the rate varied between 1.34 % and 1.94%. At December 31, 2017 the rate was 1.94%. Equipment is financed over a five year period with the exception of the Fire Department Ladder truck purchased in 2017 which is amortized over a twelve year period with a five year term. The residual amount that will need to be re-financed in 2022 is estimated to be \$698,006.

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

	Equipment Financing
2018	\$ 97,763
2019	99,660
2020	101,757
2021	104,013
2022	62,976
	<u>\$ 466,169</u>

### 20. Subsequent events

During 2017 the District of Port Hardy approved a purchase of a "Swap Loader" truck with borrowing from the Municipal Finance Authority. The order has been placed and delivery is expected in mid 2018 at a cost of approximately \$220,000

# District of Port Hardy

## Consolidated Schedule of Segmented Disclosure

For the Year Ended December 31, 2017

Schedule 1  
(Note 16)

	General government services		Transportation services		Protective services		Environmental health services		Recreation and culture	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenues</b>										
Taxes	\$ 2,756,671	\$ 2,531,258	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payments in lieu of taxes	175,980	165,794	-	-	-	-	-	-	-	-
Sale of services	-	-	332,070	341,072	42,358	40,136	268,116	262,915	217,611	205,337
Income from investment in Government business enterprises	-	-	-	-	-	-	-	-	-	-
Government transfers from other governments	529,376	524,747	223,926	-	-	13,475	-	-	3,000	59,790
Development contributions	-	-	-	-	-	-	-	-	-	-
Actuarial recognized	-	-	-	-	-	-	-	-	-	-
Gain on disposal of assets	-	500	332,748	-	-	-	-	-	-	-
Other revenue	167,701	176,447	20,423	34,200	88,274	52,903	2,209	2,350	37,035	36,487
	3,629,728	3,398,746	909,167	375,272	130,632	106,514	270,325	265,265	257,646	301,614
<b>Expenses</b>										
Salaries and benefits	786,996	791,705	478,558	497,032	134,480	108,176	13,646	14,508	699,436	655,890
Goods and services	153,696	134,841	458,950	380,816	172,145	158,681	31,240	31,079	350,476	322,701
Contracted services	30,284	29,870	227,866	214,215	91,357	94,622	203,852	205,117	148,882	128,824
Interest	11,784	2,324	-	-	-	-	-	-	-	-
Loss on Government business enterprise	-	-	-	-	-	-	-	-	-	-
Loss on disposal of assets	-	-	-	-	-	-	-	-	-	2,660
Amortization	25,677	28,028	687,797	691,323	120,051	85,508	-	-	262,931	251,233
	1,008,437	986,768	1,853,171	1,783,386	518,033	446,987	248,738	250,704	1,461,725	1,361,308
<b>Net Surplus (Deficit)</b>	<b>\$ 2,621,291</b>	<b>\$ 2,411,978</b>	<b>\$ (944,004)</b>	<b>\$ (1,408,114)</b>	<b>\$ (387,401)</b>	<b>\$ (340,473)</b>	<b>\$ 21,587</b>	<b>\$ 14,561</b>	<b>\$ (1,204,079)</b>	<b>\$ (1,059,694)</b>

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, 2017

Schedule 1  
(Note 18)

	Community development		Water		Sewer		Consolidated Actual	Budget	Consolidated Actual	Budget
	2017	2016	2017	2016	2017	2016	2017	2017	2016	2016
<b>Revenues</b>										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,756,671	\$ 2,754,846	\$ 2,531,258	\$ 2,554,818
Payments in lieu of taxes	-	-	-	-	-	-	175,980	171,519	165,794	164,334
Sale of services	-	-	1,502,160	1,470,261	1,211,022	1,186,125	3,573,337	3,557,265	3,505,846	3,465,032
Income from investment in Government business enterprises	734,261	-	-	-	-	-	734,261	-	-	-
Government transfers from other governments	198,123	248,502	873,171	-	-	-	1,827,596	12,987,000	846,514	594,650
Development contributions	-	-	-	61,041	-	-	-	-	61,041	-
Actuarial recognized	-	-	-	-	70,516	61,397	70,516	-	61,397	-
Gain on disposal of assets	-	-	-	-	-	-	332,748	-	500	-
Other revenue	37,213	37,343	36,872	22,599	45,992	15,005	435,719	299,501	377,334	293,390
	969,597	285,845	2,412,203	1,553,901	1,327,530	1,262,527	9,906,828	19,770,131	7,549,684	7,072,224
<b>Expenses</b>										
Salaries and benefits	-	16	410,006	361,928	283,267	263,400	2,806,389	2,928,748	2,692,655	2,863,634
Goods and services	31,938	14,079	527,523	577,502	394,649	393,849	2,120,617	2,415,466	2,013,548	2,343,426
Contracted services	146,049	79,074	53,780	39,484	163,089	151,740	1,065,159	1,141,048	942,946	1,078,460
Interest	-	-	-	136	88,479	157,926	100,263	169,309	160,386	109,590
Loss on Government business enterprise	-	9,220	-	-	-	-	-	-	9,220	-
Loss on disposal of assets	-	-	-	-	-	-	-	-	2,660	-
Amortization	-	-	364,332	367,762	409,191	429,284	1,869,979	1,800,000	1,853,138	1,800,000
	177,987	102,389	1,355,641	1,346,812	1,338,675	1,396,199	7,962,407	8,454,571	7,674,553	8,195,110
<b>Net Surplus (Deficit)</b>	\$ 791,610	\$ 183,456	\$ 1,056,562	\$ 207,089	\$ (11,145)	\$ (133,672)	\$ 1,944,421	\$ 11,315,560	\$ (124,869)	\$ (1,122,886)

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, 2017

### Schedule 2

	Costs					Accumulated Amortization					2017	2016
	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	\$ 6,909,007	\$ 56,023	\$ -	\$ (165,698)	\$ 6,799,332	\$ 2,069,816	\$ 117,691	\$ (78,701)	\$ 2,108,806	\$ 4,690,526	\$ 4,839,191	
Buildings	10,287,371	487,919	-	(92,649)	10,682,641	6,586,236	229,598	(78,819)	6,737,015	3,945,626	3,701,135	
Furniture and Equipment	405,068	-	-	-	405,068	397,684	1,595	-	399,279	5,789	7,384	
Vehicles and Machinery	3,843,100	1,300,764	-	(79,946)	5,063,918	2,658,483	179,917	(45,303)	2,793,097	2,270,821	1,184,617	
Computer Hardware and Software	216,167	7,251	-	-	223,418	162,988	13,796	-	176,784	46,634	53,179	
Engineering Structures												
Roads	25,098,850	266,409	-	-	25,365,259	12,731,846	553,859	-	13,285,705	12,079,554	12,367,004	
Water	13,417,826	1,006,363	-	-	14,424,189	7,462,672	364,332	-	7,827,004	6,597,185	5,955,154	
Sewer	16,454,204	225,445	-	-	16,679,649	6,757,586	409,191	-	7,166,777	9,512,872	9,696,618	
	\$ 76,631,593	\$ 3,350,174	\$ -	\$ (338,293)	\$ 79,643,474	\$ 38,827,311	\$ 1,869,979	\$ (202,823)	\$ 40,494,467	\$ 39,149,007	\$ 37,804,282	

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, 2017

Schedule 3

	2017	2016
<b>Surplus</b>		
Invested in tangible capital assets	\$ 37,984,832	\$ 37,434,747
Operating funds	5,962,697	4,467,904
	<u>43,947,529</u>	<u>41,902,651</u>
<b>Reserves</b>		
Buildings	59,666	72,281
Computers	4,872	4,825
Equipment replacement	146,664	186,948
General capital works	302,348	166,400
Park development	39,534	39,154
Recreation facilities	122,490	112,200
Sidewalks and roads	-	21,120
Tax sale	-	17,152
	<u>675,574</u>	<u>620,080</u>
<b>Water Reserve Fund</b>		
Water capital works	135,554	163,441
<b>Sewer Reserve Fund</b>		
Sewer capital works	126,146	254,210
	<u>937,274</u>	<u>1,037,731</u>
<b>Accumulated Surplus, end of year</b>	<u>\$ 44,884,803</u>	<u>\$ 42,940,382</u>

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