

District of Port Hardy

Consolidated Financial Statements

December 31, 2018



District of Port Hardy

December 31, 2018

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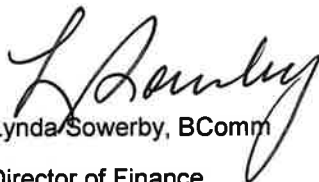
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The accompanying consolidated financial statements are the responsibility of management. To ensure their integrity, objectivity and reliability, the statements have been prepared in accordance with the recommendations of the Public Sector Accounting 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 consolidated financial statements. 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

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of the District of Port Hardy (the "District"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the District as at December 31, 2018, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the District in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the District's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the District's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the District to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Nanaimo, British Columbia

April 23, 2019

MNP LLP

Chartered Professional Accountants

District of Port Hardy


Consolidated Statement of Financial Position

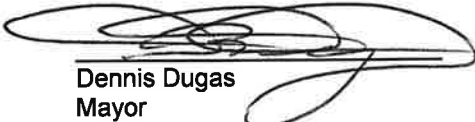
As At December 31, 2018

	2018	2017
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 5,132,160	\$ 7,394,802
Accounts receivable (Note 3)	2,445,940	1,686,249
Investment in Government business enterprises (Note 15)	81,497	48,340
Tax sale properties	108,882	9,590
Land held for resale	506	506
	<u>7,778,985</u>	<u>9,139,487</u>
Financial Liabilities		
Accounts payable and other liabilities (Note 4)	970,139	1,503,045
Deposits	35,500	39,100
Deferred revenue (Note 5)	514,572	882,217
Capital borrowing (Note 17)	1,295,833	1,164,175
	<u>2,816,044</u>	<u>3,588,537</u>
Net Financial Assets	<u>4,962,941</u>	<u>5,550,950</u>
Tangible capital assets (Note 7)	43,144,918	39,149,007
Inventory	168,945	152,644
Prepays	56,626	32,202
	<u>43,370,489</u>	<u>39,333,853</u>
Accumulated Surplus (Schedule 3)	<u>\$ 48,333,430</u>	<u>\$ 44,884,803</u>

Commitments and contingencies (Note 13)

Approved by:


Lynda Sowerby, BComm
Director of Finance


Dennis Dugas
Mayor

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

District of Port Hardy

Consolidated Statement of Operations and Accumulated Surplus For the Year Ended December 31, 2018

	2018	2018 Budget (Note 9)	2017
Revenue			
Taxes	\$ 2,928,702	\$ 2,909,562	\$ 2,756,671
Payments in lieu of taxes	169,921	179,128	175,980
Sale of services	3,755,366	3,650,491	3,573,337
Other revenue	444,859	291,928	838,983
Income from investment in Government business enterprises (Note 15)	33,157	-	734,261
Government transfers	4,251,708	13,428,425	1,827,596
	<u>11,583,713</u>	<u>20,459,534</u>	<u>9,906,828</u>
Expenses			
General government services	1,081,539	1,149,359	1,008,437
Transportation services	1,837,367	2,030,344	1,853,171
Protective services	643,869	624,572	518,033
Environmental health services	272,302	284,359	248,738
Recreation and culture	1,442,673	1,477,986	1,461,725
Community development	194,240	202,376	177,987
Water	1,393,514	1,521,480	1,355,641
Sewer	1,269,582	1,377,900	1,338,675
	<u>8,135,086</u>	<u>8,668,376</u>	<u>7,962,407</u>
Annual surplus	3,448,627	11,791,158	1,944,421
Accumulated surplus, beginning of year	44,884,803	44,884,803	42,940,382
Accumulated surplus, end of year	<u>\$ 48,333,430</u>	<u>\$ 56,675,961</u>	<u>\$ 44,884,803</u>

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

District of Port Hardy

Consolidated Statement of Changes in Net Financial Assets

As At December 31, 2018

	2018	2018 Budget (Note 9)	2017
Annual surplus	\$ 3,448,627	\$11,791,158	\$ 1,944,421
Acquisition of tangible capital assets	(6,037,381)	(19,709,700)	(3,350,174)
Amortization	2,041,470	1,870,000	1,869,979
Gain on disposal of tangible capital assets	-	-	(332,748)
Proceeds on sale of tangible capital assets	-	-	468,218
	(3,995,911)	(17,839,700)	(1,344,725)
Use (Acquisition) of supplies inventory	(16,301)	-	8,388
Use (Acquisition) of prepaid expense	(24,424)	-	20,645
	(40,725)	-	29,033
Change in net financial assets	(588,009)	(6,048,542)	628,729
Net financial assets, beginning of year	5,550,950	5,550,950	4,922,221
Net financial assets (debt), end of year	\$ 4,962,941	\$ (497,592)	\$ 5,550,950

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

District of Port Hardy

Consolidated Statement of Changes in Net Financial Assets As At December 31, 2018

	2018	2017
Cash Provided By (Used In)		
Operating Activities		
Annual surplus	\$ 3,448,627	\$ 1,944,421
Increase (Decrease) in Non Financial Assets		
Amortization	2,041,470	1,869,979
Gain on disposal of assets	-	(332,748)
Change in inventory	(16,301)	8,388
Change in prepaids	(24,424)	20,645
	<u>5,449,372</u>	<u>3,510,685</u>
(Increase) Decrease in Financial Assets and Liabilities		
Change in accounts receivable	(769,691)	(8,790)
Change in investment in Government business enterprises	(33,157)	39,045
Change in tax sale properties	(99,292)	9,320
Change in accounts payable	(532,906)	833,895
Change in tax sale deposits	(3,600)	(3,521)
Change in performance deposits and bonds	-	17,450
Change in deferred revenue	(367,645)	627,526
Actuarial adjustment on debt	-	(70,516)
Cash provided by operating transactions	<u>3,643,081</u>	<u>1,950,348</u>
Capital Activities		
Acquisition of tangible capital assets	(6,037,381)	(3,350,174)
Proceeds on sale of tangible capital assets	-	468,218
	<u>(6,037,381)</u>	<u>(2,881,956)</u>
Financing Activities		
Capital borrowing repaid	(128,271)	(340,669)
Debenture debt repaid	-	(166,582)
Capital borrowing draws	259,929	-
	<u>131,658</u>	<u>865,156</u>
Net increase (decrease) in cash and cash equivalents	(2,262,642)	2,938,294
Cash and cash equivalents at beginning of period	<u>7,394,802</u>	<u>4,456,508</u>
Cash and cash equivalents at end of period	<u>\$ 5,132,160</u>	<u>\$ 7,394,802</u>

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

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

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 15).

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, 2018

1. Significant Accounting Policies (continued from previous page)

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 District's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and other liabilities, deposits, and capital borrowing. It is management's opinion that the District 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, 2018

1. Significant Accounting Policies (continued from previous page)

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, 2018.

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, 2018 the District has not recorded any liability for contaminated sites as no such sites have been identified.

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

1. Significant Accounting Policies (continued from previous page)

k) Adoption of New Accounting Standards

PS 2200 Related Party Disclosures

Effective January 1, 2018, the District adopted the recommendations relating to *PS 2200 Related Party Disclosures*, as set out in the CPA Canada public sector accounting standards. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

This new section defines a related party and establishes 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.

There was no material impact on the consolidated financial statements of adopting the new Section.

PS 3420 Inter-entity Transactions

Effective January 1, 2018, the District adopted the recommendations relating to *PS 3420 Inter-entity Transactions*, as set out in the CPA Canada public sector accounting standards. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

The new Section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The main features of the new Section are:

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis.
- Transactions are measured at the carrying amount, except in specific circumstances.
- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice.
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.
- Inter-entity transactions are considered in conjunction with PS 2200 Related Party Disclosures.

There was no material impact on the consolidated financial statements of adopting the new Section.

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

1. Significant Accounting Policies (continued from previous page)

k) Adoption of New Accounting Standards

PS 3210 Assets

Effective January 1, 2018, the District adopted the recommendations relating to PS 3210 Assets, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

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 government's legislation, the government's 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 entities 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.

There was no material impact on the consolidated financial statements of adopting the new Section.

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District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

1. Significant Accounting Policies (continued from previous page)

k) Adoption of New Accounting Standards (continued from previous page)

PS 3320 Contingent Assets

Effective January 1, 2018, the District adopted the recommendations relating to PS 3320 *Contingent Assets*, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

The new Section establishes disclosure standards on contingent assets. The main features of this standard are as follows:

- 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.

There was no material impact on the consolidated financial statements of adopting the new Section.

PS 3380 Contractual Rights

Effective January 1, 2018, the District adopted the recommendations relating to PS 3380 *Contractual Rights*, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the change was applied prospectively, and prior periods have not been restated.

The 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.

There was no material impact on the consolidated financial statements of adopting the new Section.

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

2. Cash and Cash Equivalents

	2018	2017
Cash	\$ 389,791	\$ 331,545
Investments	4,742,369	7,063,257
	<u>\$ 5,132,160</u>	<u>\$ 7,394,802</u>

The above investments balance includes Municipal Finance Authority money market account and high interest savings account \$4,742,369 (2017 - \$7,063,257), carried at cost, which is also equal to market value.

3. Accounts Receivable

	2018	2017
Property taxes	\$ 973,969	\$ 661,731
Other Governments	354,124	387,898
Trade and other	1,489,583	997,702
	<u>2,817,676</u>	<u>2,047,331</u>
Less allowance for doubtful accounts	(361,736)	(361,082)
	<u>\$ 2,445,940</u>	<u>\$ 1,686,249</u>

Wharf receivables total \$282,676 (2017 - \$276,642). Of this amount \$248,532 (2017 - \$250,651) is 90 days overdue and has been recorded in allowance for doubtful accounts above. A total of \$93,677 (2017 - \$53,187) in taxes receivable has been recorded as doubtful and the remainder of doubtful accounts represents general accounts receivable.

4. Accounts Payable and Other Liabilities

	2018	2017
Other Governments	\$ 101,248	\$ 48,909
Accrued wages and benefits	298,700	291,492
Trade and other	570,191	1,162,644
	<u>\$ 970,139</u>	<u>\$ 1,503,045</u>

5. Deferred Revenue

	2018	2017
Prepaid taxes	\$ 73,259	\$ 46,374
Prepaid fees and charges	54,740	52,637
Other deferred revenue	386,573	783,206
	<u>\$ 514,572</u>	<u>\$ 882,217</u>

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

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).

	2018	2017
Opening balance of unspent funds	\$ 470,794	\$ 422,392
Add: Amount received during the year	232,222	223,926
Interest earned	11,298	4,598
Less: Amount spent on eligible projects	(29,978)	(180,122)
Closing balance of unspent funds	\$ 684,336	\$ 470,794

7. Tangible Capital Assets (Schedule 2)

	2018	2017
Land and Improvements	\$ 4,633,329	\$ 4,690,526
Buildings	4,384,549	3,945,626
Furniture and Equipment	4,246	5,789
Vehicles and Machinery	2,224,324	2,270,821
Computer Hardware and Software	34,949	46,634
Engineering Structures		
Roads	11,800,771	12,079,554
Water	10,661,743	6,597,185
Sewer	9,401,007	9,512,872
	\$ 43,144,918	\$ 39,149,007

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, 2018

8. 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, 2017 the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 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 \$184,316 (2017 - \$178,047) for employer contributions while employees contributed \$163,518 (2017 - \$162,819) to the plan in fiscal 2018.

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.

9. 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, 2018 adjusted for budget amounts for amortization and tangible capital assets.

Annual surplus, as adopted February 14, 2018	\$ -
Add:	
Acquisition of tangible capital assets	19,709,700
Debt principal repayments	202,500
Less:	
Debt incurred	(4,539,000)
Interfund transfers	(3,582,042)
Annual surplus restated	<u><u>\$ 11,791,158</u></u>

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

10. 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.

	2018	2017
School Taxes	\$ 1,306,933	\$ 1,311,241
Regional District of Mount Waddington	405,469	386,834
Mount Waddington Regional Hospital District	142,788	138,990
BC Assessment Authority	20,596	21,287
Municipal Finance Authority	90	86
Police Tax	186,198	176,659
Vancouver Island Regional Library	156,216	148,500
	<u>\$ 2,218,290</u>	<u>\$ 2,183,597</u>

11. 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, 2018, the balance of funds held in trust was \$39,747 (2017 - \$38,420).

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.

12. 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, 2018 is \$28,070 (2017 - \$31,266).

Sick leave liability at December 31, 2018 is \$136,536 (2017 - \$119,823).

Severance liability at December 31, 2018 is \$36,981 (2017 - \$47,087).

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

13. 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) **Funding Agreement**

The District has entered into a funding agreement with the Union of British Columbia Municipalities under the terms and conditions of the Strategic Priorities Fund. The purpose of the agreement is to award the District up to \$6 million in funding for the construction of the Port Hardy Multiplex - Swimming Pool Replacement. The funds are contingent on the project being completed by December 31, 2020 or the agreement may be terminated, and any costs incurred will be deemed ineligible for the grant funding.

As of December 31, 2018, the District has incurred \$608,386 in expenses for the design and tender of the multiplex project.

The project is currently on hold as the bids received exceeded the project budget. If the District is successful in receiving additional grant funding, the project will proceed in late 2019.

c) **Regional District of Mount Waddington**

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

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

14. 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, 2018

15. 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.

	2018	2017
Summary of investment in Government Businesses		
NICFLP	\$ 68,890	\$ 36,065
NICF LTD.	12,607	12,275
	<u>81,497</u>	<u>48,340</u>
Summary of results of operations		
NICFLP	32,826	726,918
NICF LTD.	331	7,343
	<u>\$ 33,157</u>	<u>\$ 734,261</u>

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

	2018	2017
Financial Position		
Current and other assets	\$ 286,576	\$ 283,110
Current and other liabilities	42,088	138,095
Partners' Capital	244,488	145,015
Results of operations		
Revenues	151,215	2,254,124
Expenses	51,742	51,342
Net surplus	<u>\$ 99,473</u>	<u>\$ 2,202,782</u>

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

16. Comparative Figures

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

District of Port Hardy

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2018

17. Capital Borrowing

	Balance, Beginning of Year	Additions	Principal repayments	Balance, end of year
2017 Fire Ladder Truck	\$ 1,060,029	\$ -	\$ 76,024	\$ 984,005
2018 Dodge Dump Truck	104,146	-	20,006	84,140
2019 International Hook Truck	-	233,153	29,304	203,849
2018 Nissan Rogue	-	26,776	2,937	23,839
	<u>\$ 1,164,175</u>	<u>\$ 259,929</u>	<u>\$ 128,271</u>	<u>\$ 1,295,833</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 0.5% spread on top of the CDOR (Canadian Dealer Offered Rate) rate. In 2018 the rate varied between 1.34 % and 1.94%. At December 31, 2018 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
2019	\$ 145,517
2020	149,488
2021	153,312
2022	156,644
2023	124,069
	<u>\$ 729,030</u>

18. Subsequent events

Subsequent to December 31, 2018, the District has entered into a contract for the purchase and installation of a refrigeration chiller upgrade at the Don Cruikshank Memorial Arena. The total cost of the contract is \$295,750 and will be completed in 2019.

District of Port Hardy

Consolidated Schedule of Segmented Disclosure

For the Year Ended December 31, 2018

Schedule 1
(Note 14)

	General government services		Transportation services		Protective services		Environmental health services		Recreation and culture	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues										
Taxes	\$ 2,928,702	\$ 2,756,671	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payments in lieu of taxes	169,921	175,980	-	-	-	-	-	-	-	-
Sale of services	-	-	399,335	332,070	149,993	42,358	282,432	268,116	198,266	217,611
Income from investment in Government business enterprises	-	-	-	-	-	-	-	-	-	-
Government transfers	541,231	529,376	232,222	223,926	13,234	-	-	-	3,500	3,000
Actuarial recognized	-	-	-	-	-	-	-	-	-	-
Gain on disposal of assets	-	-	-	332,748	-	-	-	-	-	-
Other revenue	219,908	167,701	10,200	20,423	67,850	88,274	2,212	2,209	37,590	37,035
	3,859,762	3,629,728	641,757	909,167	231,077	130,632	284,644	270,325	239,356	257,646
Expenses										
Salaries and benefits	817,794	786,996	464,737	478,558	143,144	134,480	18,554	13,646	712,983	699,436
Goods and services	193,815	153,696	373,506	458,950	219,117	172,145	39,970	31,240	342,886	350,476
Contracted services	27,818	30,284	264,407	227,866	122,371	91,357	213,778	203,852	117,096	148,882
Interest Expense	25,860	11,784	-	-	-	-	-	-	-	-
Amortization	16,252	25,677	734,717	687,797	159,237	120,051	-	-	269,708	262,931
	1,081,539	1,008,437	1,837,367	1,853,171	643,869	518,033	272,302	248,738	1,442,673	1,461,725
Net Surplus (Deficit)	\$ 2,778,223	\$ 2,621,291	\$ (1,195,610)	\$ (944,004)	\$ (412,792)	\$ (387,401)	\$ 12,342	\$ 21,587	\$ (1,203,317)	\$ (1,204,079)

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, 2018

Schedule 1
(Note 14)

	Community development		Water		Sewer		Consolidated Actual	Budget	Consolidated Actual	Budget
	2018	2017	2018	2017	2018	2017	2018	2018	2017	2017
Revenues										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,928,702	\$ 2,909,562	\$ 2,756,671	\$ 2,754,846
Payments in lieu of taxes	-	-	-	-	-	-	169,921	179,128	175,980	171,519
Sale of services	-	-	1,461,523	1,502,160	1,263,817	1,211,022	3,755,366	3,650,491	3,573,337	3,557,265
Income from investment in Government business enterprises	33,157	734,261	-	-	-	-	33,157	-	734,261	-
Government transfers	183,167	198,123	3,278,354	873,171	-	-	4,251,708	13,428,425	1,827,596	12,987,000
Actuarial recognized	-	-	-	-	-	70,516	-	-	70,516	-
Gain on disposal of assets	-	-	-	-	-	-	-	-	332,748	-
Other revenue	37,105	37,213	43,392	36,872	26,602	45,992	444,859	291,928	435,719	299,501
	253,429	969,597	4,783,269	2,412,203	1,290,419	1,327,530	11,583,713	20,459,534	9,906,828	19,770,131
Expenses										
Salaries and benefits	-	-	377,350	410,006	277,473	283,267	2,812,035	3,046,964	2,806,389	2,928,748
Goods and services	28,579	31,938	501,108	527,523	386,894	394,649	2,085,875	2,431,671	2,120,617	2,415,466
Contracted services	165,661	146,049	83,278	53,780	171,934	163,089	1,166,343	1,240,740	1,065,159	1,141,048
Interest expense	-	-	-	-	3,503	88,479	29,363	79,001	100,263	169,309
Amortization	-	-	431,778	364,332	429,778	409,191	2,041,470	1,870,000	1,869,979	1,800,000
	194,240	177,987	1,393,514	1,355,641	1,269,582	1,338,675	8,135,086	8,668,376	7,962,407	8,454,571
Net Surplus (Deficit)	\$ 59,189	\$ 791,610	\$ 3,389,755	\$ 1,056,562	\$ 20,837	\$ (11,145)	\$ 3,448,627	\$ 11,791,158	\$ 1,944,421	\$ 11,315,560

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

District of Port Hardy

Consolidated Statement of Tangible Capital Assets For the Year Ended December 31, 2018

Schedule 2

	Costs					Accumulated Amortization					2018	2017
	Add		Less		Closing Balance	Add		Less				
	Opening Balance	Additions	Construction In progress	Disposals		Amortization	Accumulated Amortization on Disposals	Closing Balance				
Land and Land Improvements	\$ 6,799,332	\$ 62,322	\$ -	\$ -	\$ 6,861,654	\$ 2,108,806	\$ 119,519	\$ -	\$ 2,228,325	\$ 4,633,329	\$ 4,690,526	
Buildings	10,682,641	56,073	608,386	-	11,347,100	6,737,015	225,536	-	6,962,551	4,384,549	3,945,626	
Furniture and Equipment	405,068	-	-	-	405,068	399,279	1,543	-	400,822	4,246	5,789	
Vehicles and Machinery	5,063,918	215,490	-	(234,478)	5,044,930	2,793,097	261,987	(234,478)	2,820,606	2,224,324	2,270,821	
Computer Hardware and Software	223,418	-	-	-	223,418	176,784	11,685	-	188,469	34,949	46,634	
Engineering Structures												
Roads	25,365,259	280,860	-	-	25,646,119	13,285,705	559,643	-	13,845,348	11,800,771	12,079,554	
Water	14,424,189	4,496,336	-	-	18,920,525	7,827,004	431,778	-	8,258,782	10,661,743	6,597,185	
Sewer	16,679,649	317,914	-	(11,500)	16,986,063	7,166,777	429,779	(11,500)	7,585,056	9,401,007	9,512,872	
	\$ 79,643,474	\$ 5,428,995	\$ 608,386	\$(245,978)	\$ 85,434,877	\$ 40,494,467	\$ 2,041,470	\$ (245,978)	\$ 42,289,959	\$ 43,144,918	\$ 39,149,007	

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

District of Port Hardy

Consolidated Statement of Accumulated Surplus For the Year Ended December 31, 2018

Schedule 3

	2018	2017
Surplus		
Invested in tangible capital assets	\$ 41,849,085	\$ 37,984,832
Operating funds	5,963,263	5,962,697
	<u>47,812,348</u>	<u>43,947,529</u>
Reserves		
Buildings	48,675	59,666
Computers	4,965	4,872
Equipment replacement	135,115	146,664
General capital works	97,587	302,348
Park development	40,288	39,534
Recreation facilities	<u>99,636</u>	<u>122,490</u>
	426,266	675,574
Water Reserve Fund		
Water capital works	94,816	135,554
Sewer Reserve Fund		
Sewer capital works	-	126,146
	<u>521,082</u>	<u>937,274</u>
Accumulated Surplus, end of year	<u><u>\$ 48,333,430</u></u>	<u><u>\$ 44,884,803</u></u>

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