

REGIONAL DISTRICT OF BULKLEY-NECHAKO

FINANCIAL STATEMENTS

December 31, 2017



INDEPENDENT AUDITORS' REPORT

To the Directors of Regional District of Bulkley-Nechako

We have audited the accompanying financial statements of the Regional District of Bulkley-Nechako, which comprise the statement of financial position as at December 31, 2017, and the statements of financial activities, change in financial assets, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Regional District of Bulkley-Nechako as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards. As required by the Local Government Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

May 3, 2018
Prince George, BC

PricewaterhouseCoopers LLP
Chartered Professional Accountants

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

STATEMENT OF FINANCIAL POSITION


December 31, 2017

	<u>2017</u>	<u>2016</u>
FINANCIAL ASSETS		
Cash	\$ 689,522	\$ 469,797
Temporary investments (Note 2)	10,427,013	9,144,114
Accounts receivable	318,427	284,921
Grants receivable	188,445	92,813
Investment in partnership (Note 14)	145,915	-
Debt Reserve Fund - Municipal Finance Authority (Note 3)	178,321	125,472
Debentures recoverable from municipalities (Note 4)	<u>8,972,354</u>	<u>4,301,364</u>
	<u>20,919,997</u>	<u>14,418,481</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 5, 10 and 12)	2,898,079	3,365,593
Deferred revenue (Note 6)	4,681,773	3,872,593
Debt Reserve Fund - Municipal Finance Authority (Note 3)	147,765	95,647
Debentures issued for municipalities (Note 4)	8,972,354	4,301,364
Debentures issued for the Regional District (Note 9)	<u>1,835,147</u>	<u>2,353,480</u>
	<u>18,535,118</u>	<u>13,988,677</u>
NET FINANCIAL ASSETS	<u>2,384,879</u>	<u>429,804</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 3)	14,401,656	14,583,909
Prepaid expenses	<u>65,939</u>	<u>53,850</u>
	<u>14,467,595</u>	<u>14,637,759</u>
ACCUMULATED SURPLUS (Note 16)	<u>\$ 16,852,474</u>	<u>\$ 15,067,563</u>

CONTINGENCIES (Note 10)

Approved by the Board:

 Chairperson

 Financial Administrator

See notes to the consolidated financial statements.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

STATEMENT OF FINANCIAL ACTIVITIES

For the year ended December 31, 2017

	2017		2016
	<u>Budget</u> (Note 15)	<u>Actual</u>	<u>Actual</u>
REVENUE			
Property tax requisition			
Electoral area	\$ 5,676,990	\$ 5,657,172	\$ 5,459,747
Municipal	3,477,298	3,477,305	3,525,141
	<u>9,154,288</u>	<u>9,134,477</u>	<u>8,984,888</u>
Federal grants - conditional	1,073,674	1,027,608	1,168,534
Grants-in-lieu of taxes	938,911	983,685	943,625
Fees and permits	656,253	690,348	603,854
Municipal debt payments (Note 3)	548,174	383,759	494,858
Other grants - conditional	285,031	277,543	143,775
Sundry	11,898	186,630	88,427
Provincial grants - unconditional	255,000	185,000	182,823
Investment in partnership	-	145,915	-
Municipal cost sharing	109,464	130,272	108,340
Provincial grants - conditional	302,901	102,343	-
Interest	17,500	97,097	132,672
Emergency expenditure recoveries	300,000	66,708	24,688
Administration recoveries	59,138	58,871	52,446
Debt sinking fund actuarial earnings (Note 8)	-	51,537	45,541
Donations	15,000	22,513	55,429
	<u>13,727,232</u>	<u>13,544,306</u>	<u>13,029,900</u>
EXPENSES (Schedule 1)			
Environmental services	5,104,679	3,143,113	3,896,675
Government - general, rural and local commission	3,175,008	2,884,348	2,853,294
Recreation and culture	1,895,536	1,871,766	1,940,617
Fire protection and emergency response	1,893,708	1,526,371	1,446,987
Building inspection, building numbering, Planning and development services	1,117,237	909,872	912,179
Economic development	1,049,665	611,994	575,429
Municipal debt payments (Note 3)	548,174	383,759	494,858
Street lighting and transportation	405,884	314,401	473,335
Sewer and water	217,856	113,771	110,090
	<u>15,407,747</u>	<u>11,759,395</u>	<u>12,703,464</u>
ANNUAL SURPLUS (DEFICIT)	(1,680,515)	1,784,911	326,436
ACCUMULATED SURPLUS - BEGINNING OF YEAR	<u>15,067,563</u>	<u>15,067,563</u>	<u>14,741,127</u>
ACCUMULATED SURPLUS - END OF YEAR (Note 16)	<u>\$ 13,387,048</u>	<u>\$ 16,852,474</u>	<u>\$ 15,067,563</u>

See notes to the consolidated financial statements.

REGIONAL DISTRICT OF BULKLEY-NECHAKO
STATEMENT OF CHANGE IN FINANCIAL ASSETS

For the year ended December 31, 2017

	<u>2017</u>		<u>2016</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
ANNUAL (DEFICIT) SURPLUS	\$ (1,680,515)	\$ 1,784,911	\$ 326,436
Acquisition of tangible capital assets	-	(752,887)	(846,212)
Loss on sale of tangible capital assets	-	-	6,457
Proceeds on sale of tangible capital assets	-	2,989	29,275
Amortization of tangible capital assets	1,019,585	932,151	926,953
	(660,930)	1,967,164	442,909
Net use of (addition to) prepaid expenses	-	(12,089)	8,000
CHANGE IN NET FINANCIAL ASSETS	(660,930)	1,955,075	450,909
NET FINANCIAL ASSETS AT BEGINNING OF THE YEAR	429,804	429,804	(21,105)
NET FINANCIAL ASSETS AT END OF THE YEAR	<u>\$ (231,126)</u>	<u>\$ 2,384,879</u>	<u>\$ 429,804</u>

See notes to the consolidated financial statements.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

STATEMENT OF CASH FLOW

For the year ended December 31, 2017

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Annual surplus	\$ 1,784,911	\$ 326,436
Add: Non-cash items		
Amortization of tangible capital assets	932,151	926,953
Loss (gain) on sale of tangible capital assets	-	6,457
Changes in non-cash working capital:		
Accounts receivable	(33,506)	171,956
Grants receivable	(95,632)	(4,436)
Accounts payable and accrued liabilities	(467,514)	(129,326)
Deferred revenue	809,180	(279,539)
Prepaid expenses	(12,089)	8,000
	<u>2,917,501</u>	<u>1,026,501</u>
FINANCING ACTIVITIES		
Purchase of temporary investments	(1,282,899)	(209,324)
Investment in partnership	(145,915)	-
Actuarial earnings on debt sinking fund	(58,871)	(45,541)
Debt Reserve Fund - Municipal Finance Authority	(731)	(3,857)
Debt proceeds	14,907	533,973
Debt repayments	(474,369)	(437,256)
	<u>(1,947,878)</u>	<u>(162,005)</u>
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	(752,887)	(846,212)
Proceeds on disposal of tangible capital assets	2,989	29,275
	<u>(749,898)</u>	<u>(816,937)</u>
INCREASE DURING THE YEAR	219,725	47,559
CASH AT BEGINNING OF THE YEAR	<u>469,797</u>	<u>422,238</u>
CASH AT END OF THE YEAR	<u><u>\$ 689,522</u></u>	<u><u>\$ 469,797</u></u>

See notes to the consolidated financial statements.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

The Regional District of Bulkley-Nechako ("the Regional District") was incorporated as a regional district on February 1, 1966 under the Municipal Act (replaced by the Local Government Act) of British Columbia. The Regional District provides a political and administrative framework for region-wide, inter-municipal and sub-regional services and acts as the local government for electoral areas.

1. SIGNIFICANT ACCOUNTING POLICIES

The Regional District uses Canadian public sector accounting standards ("PSAS") as recommended by the Public Sector Accounting Board ("PSAB"), of the Chartered Professional Accountants of Canada.

Basis of Presentation

The financial statements include the combined results and activities of the Regional District's Operating, Capital and Reserve Funds. Inter-fund transactions and balances have been eliminated for the preparation of the financial statements. The purpose of each fund is as follows:

Operating Funds - These funds include the General, Water, and Sewer operations of the Regional District. Operating funds are used to record the costs associated with providing Regional District services.

Capital Funds – These funds include the General, Water, and Sewer Capital Funds. These funds track the acquisition costs of various tangible capital assets and the funding of these assets including related long-term debt.

Reserve Funds – These funds are established by bylaw, under the Local Government Act of British Columbia, by the Board of Directors for specified purposes. The assets and interest, in these funds, thereon must be used only for the purpose for which the fund was established and if the amount in a Reserve Fund is greater than required, the Board of Directors may, by bylaw, transfer all or a portion of the balance to another Reserve Fund.

Budget figures disclosed throughout the financial statements have been extracted from the 2017 final budget, adopted in March 23, 2017.

Subsequent amendments to the budget bylaw are not reflected in the budget figures.

Basis of Accounting

Restricted Fund accounting is used.

Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset, excluding interest costs.

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also recorded as revenue.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES, continued

Amortization

The Regional District amortizes tangible capital assets on a straight line basis over the estimated useful life of the asset.

Buildings	40-50 years
Water and waste systems	50 years
Heavy vehicles	10-20 years
Passenger vehicles	6-10 years
Other equipment	5-10 years

Full annual amortization is charged in the year of acquisition and none in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Revenue Recognition

Tax revenue from local government requisitions are recognized in the year levied, provided that the effective date of tax has passed and the related bylaws have been approved by the Board of Directors.

Government transfers (grants) are the transfer of monetary assets or tangible capital assets from senior levels of government that are not the result of an exchange transaction, not expected to be repaid in the future, and not expected to generate a financial return to the transferor.

Grants without eligibility criteria or stipulations (unconditional) are recognized as revenue when the grant is authorized.

Grants with eligibility criteria or stipulations (conditional) are recognized as revenue when the grant is authorized and all eligibility criteria are met.

Grants with or without eligibility criteria but with stipulations (conditional) are recognized as revenue when the grant is authorized and all eligibility criteria are met, except to the extent that the grant gives rise to an obligation.

Grants received from the Federal Gas Tax Agreement are contributed to a federal gas tax reserve and recorded as revenue in the year amounts are expended on qualifying projects.

Revenue from sales or services is recognized at the point of sale or when service is provided.

Unfunded landfill liability

The landfill for closure of operational sites and post-closure care has been recognized based on estimated future expenses, estimated for inflation and the usage of the sites capacity during the year. The change in this liability during the year is recorded as a charge to operations. These estimates are reviewed and adjusted annually.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Uncertainty

The preparation of the Financial Statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the year. These estimates and assumptions are based on management's judgement and the best information available at the time of preparation and may differ significantly from actual results. Estimates are reviewed periodically or as new information becomes available, by management, and as adjustments become necessary, they are reported in earnings in the period in which they become known. Significant estimates include the determination of the useful life of tangible capital assets, valuation of the landfill closure and post-closure obligation, and provisions for contingencies.

Non-financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Financial Instruments

Measurement of financial instruments

The District initially measures its financial assets and financial liabilities at fair value. The District subsequently measures all its financial assets and financial liabilities at cost.

Financial assets measured at cost include cash, accounts receivable, cash deposits included in the debt reserve fund – Municipal Finance Authority, and debentures recoverable from municipalities. Financial assets measured at fair value include temporary investments.

Financial liabilities measured at cost include accounts payable and accrued liabilities, debentures issued for municipalities, debentures issued for the Regional District, and financial liabilities included in the debt reserve fund –Municipal Finance Authority.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Transaction costs

The District recognizes its transaction costs in net income in the period incurred. However, the carrying amount of the financial instruments that will not be subsequently measured at fair value is reflected in the transaction costs that are directly attributable to their origination, issuance or assumption.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

2. TEMPORARY INVESTMENTS

Temporary investments consist of fixed income guaranteed investment certificates, have a maturity of one year or less, and are carried at market value which approximates cost. Interest rates for temporary investments range from 1.4% to 2.15%.

3. DEBT RESERVE FUND – MUNICIPAL FINANCE AUTHORITY

The Regional District issues debt instruments through the Municipal Finance Authority of British Columbia ("MFA"), and as a condition of borrowing, one percent of the debenture proceeds is withheld as a debt reserve fund. The Regional District also executes demand notes in connection with each debenture whereby the Regional District could be required to pay certain amounts to MFA in excess of the debt borrowed. The demand notes are contingent in nature, and it is unlikely that they will be called; therefore, a liability has not been reported in the financial statements (see note 10).

The Regional District reports the Debt Reserve Fund balances for both debts issued on its behalf, and on behalf of member municipalities, as a financial asset. Because all Debt Reserve Fund refunds received on behalf of Municipal borrowing are repayable to those Municipalities, the Municipal portion of the Debt Reserve Fund balances are also reported as a financial liability.

4. DEBT RECOVERABLE FROM MUNICIPALITIES

When a member Municipality within the Regional District wishes to issue debenture debt through the Municipal Finance Authority of British Columbia ("MFA"), the borrowing is done through the Regional District. The Regional District is therefore responsible for repayment of the debt to MFA. When payments (interest and sinking fund or principal) are made on this debt, the Regional District pays MFA and is in turn reimbursed by the Municipality.

The Regional District therefore reports the net outstanding debt borrowed on behalf of Municipalities as both a financial liability and a financial asset.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

4. DEBT RECOVERABLE FROM MUNICIPALITIES, continued

Service borrowing was incurred for:	Originally Borrowed		Year of Maturity	Current Rate of Interest	Net Debt Outstanding	
	Year	Amount			2017	2016
Smithers Issue 142	2017	3,000,000	2037	3.15%	3,000,000	-
Vanderhoof Issue 142	2017	2,000,000	2037	3.15%	2,000,000	-
Smithers Issue 127	2013	650,000	2034	3.30%	581,861	605,471
Fort St. James Issue 124	2013	304,879	2033	3.15%	261,402	272,919
Smither Issue 124	2012	147,639	2012	3.15%	126,585	132,162
Fort St. James Issue 124	2013	121,952	2028	3.15%	96,089	102,940
Smithers Issue 116	2011	800,000	2026	4.20%	534,994	583,602
Smither Issue 110	2010	17,172	2020	4.50%	5,875	7,685
Smither Issue 105	2009	23,093	2019	4.90%	5,370	7,901
Houston Issue 99	2006	2,407,125	2032	1.75%	1,627,617	1,713,174
Fraser Lake Issue 85	2004	350,000	2019	2.00%	62,699	91,827
Smithers Issue 81	2004	500,000	2024	2.40%	232,157	259,313
Smithers Issue 81	2004	38,824	2019	2.40%	6,955	10,186
Smithers Issue 79	2003	500,000	2023	2.10%	203,643	232,157
Smithers Issue 77	2002	500,000	2022	1.75%	173,704	203,643
Burns Lake Issue 71	1999	363,850	2019	2.10%	53,403	78,384
		<u>\$ 11,724,534</u>			<u>\$ 8,972,354</u>	<u>\$ 4,301,364</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Trade payables	\$ 599,661	\$ 406,958
Vacation accrual	201,763	215,232
Sick leave accrual (Note 10)	268,857	245,218
Retirement accrual (Note 10)	111,144	155,541
Accrued debenture interest (Note 10)	17,350	17,241
Landfill closure cost accrual (Note 12)	1,699,304	2,325,403
	<u>\$ 2,898,079</u>	<u>\$ 3,365,593</u>

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

6. DEFERRED REVENUE

	<u>2017</u>	<u>2016</u>
Government transfers - Federal Gas Tax Reserve	\$ 3,777,613	\$ 3,852,652
Government transfers - Provincial	886,110	1,989
Government transfers - Municipal	12,400	7,925
Other	5,650	10,027
	<u>\$ 4,681,773</u>	<u>\$ 3,872,593</u>

7. CREDIT FACILITY

The Regional District has available on an authorized operating line of credit to a maximum of \$400,000. This facility bears interest at prime rate (December 31, 2017 3.2%) and is secured by the current borrowing resolution. The facility remained unused at year end.

8. SINKING FUND ACTUARIAL EARNINGS

The majority of issues of debt instruments through the Municipal Finance Authority of B.C. are sinking fund debentures. The Authority uses a 4%-5% internal rate of return when it sets the annual sinking fund payments required. The actuarial earnings on Debt Sinking Funds reported on the Statement of Financial Position are computed at this 4%-5% rate of return.

9. DEBENTURES ISSUED FOR THE REGIONAL DISTRICT

The Regional District's long-term debt is in the form of debentures issued by the Municipal Finance Authority of British Columbia ("MFA"). These are all sinking fund debentures, stated and repayable in Canadian funds as shown below:

Service borrowing was incurred for:	Originally Borrowed		Year of Maturity	Current Rate of Interest	Net Debt Outstanding	
	Year	Amount			2017	2016
Environmental Services	2008	677,000	2018	4.65%	80,240	157,428
Environmental Services	2010	729,517	2020	3.73%	249,600	326,483
Burns Lake Arena	1999	200,000	2019	6.20%	29,354	43,085
Round Lake Fire Protection	2017	14,909	2037	3.15%	14,909	-
Fort Fraser Fire Protection	2004	147,140	2019	5.30%	26,359	38,604
Luck Bay Fire Protection	2006	125,000	2026	1.75%	68,388	74,602
Luck Bay Fire Protection	2010	10,000	2030	3.73%	7,348	7,773
Environmental Services	2015	1,547,000	2020	1.95%	868,550	1,171,532
Baker Airport	2016	167,625	2021	1.94%	134,100	167,625
Topley Rural Fire Protection	2016	366,348	2041	2.10%	356,299	366,348
		<u>\$ 3,984,539</u>			<u>\$ 1,835,147</u>	<u>\$ 2,353,480</u>

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

9. DEBENTURES ISSUED FOR THE REGIONAL DISTRICT, continued

Scheduled principal, interest, total debt payments, and actuarial earnings projected on the sinking funds over the next 5 years are:

	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total Payments</u>	<u>Actuarial Earnings</u>
2018	449,695	89,164	538,859	59,500
2019	399,689	63,142	462,831	40,724
2020	330,148	40,294	370,442	29,621
2021	149,237	10,723	159,960	4,545
2022	15,137	10,723	25,860	5,213

10. CONTINGENCIES

Municipal Finance Authority Demand Notes

The Regional District is contingently liable to the Municipal Finance Authority of British Columbia ("MFA") in excess of the amounts borrowed under the terms of demand notes issued to MFA.

Member municipalities have signed offsetting demand notes to the Regional District for borrowing made on their behalf. The amounts are as follows:

	<u>2017</u>	<u>2016</u>
Demand Notes Outstanding:		
Borrowing on behalf of member municipalities	\$ 265,090	\$ 202,242
Borrowing for Regional District purposes	<u>147,765</u>	<u>95,975</u>
	<u>\$ 412,855</u>	<u>\$ 298,217</u>

Employee Sick Leave

The Regional District is contingently liable to pay its employees sick leave. The total value of the accumulated sick time is \$444,891 at December 31, 2017 (2016 - \$453,613). As at year-end an amount of \$268,857 (2016 - \$245,218) has been accrued as an estimate of the liability.

Employee Retiring Allowance

The Regional District is contingently liable to pay employees one week salary for every year of employment to a maximum of 13 weeks upon normal retirement from the Regional District. The total value of this retiring allowance is \$158,371 at December 31, 2017 (2016 - \$176,195). As at year-end an amount of \$111,144 (2016 - \$155,540) has been accrued as an estimate of the liability.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

11. MUNICIPAL PENSION PLAN

The District and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing management of the Plan, including investment of the 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 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 actuarial valuation as at December 31, 2015 indicated a \$2,224 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2018 with results available in 2019. Employers participating in the Plan record their pension expenses 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 accrues assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocation the obligation, assets and cost to the individual employers participating in the Plan.

The Regional District of Bulkley-Nechako paid \$255,345 (2016 - \$263,071) for employer contributions to the Plan in fiscal 2017.

12. UNDERFUNDED LIABILITY FOR LANDFILL CLOSURE COSTS

British Columbia environmental law requires closure and post-closure care of landfill sites, which includes final covering and landscaping, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspections and maintenance.

The estimated total liability is based on the sum of discounted future cash flows for closure and post closure activities for 30 years after closure using a discount rate of 3.0% which is net of projected annual inflation.

The accrued liability portion is based on the cumulative capacity used at year end compared to the estimated total landfill capacity.

The Knockholt landfill has been divided into six phases with only the first three phases being utilized. Phase one and two are at 90% and 93% capacity respectively and are expected to reach capacity by 2020. The total capacity of phase three of the Knockholt landfill is estimated at 486,000 cubic meters. Phase 3B and 3C remain undeveloped. The estimated remaining capacity of Phase 3A, 3B and 3C combined is 478,500 cubic meters. The existing landfill site was originally expected to reach capacity approximately in the year 2076 and has been estimated to last past 2096 because of refined estimates for utilization based on current landfill rates.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

12. UNDERFUNDED LIABILITY FOR LANDFILL CLOSURE COSTS, continued

The total capacity of the Clearview landfill is estimated at 311,240 cubic meters. The estimated remaining capacity if the landfill phase is 148,259 cubic meters and is expected to reach capacity in 2027. The existing landfill site is expected to reach capacity approximately in the year 2106.

Considerable uncertainty exists with these estimations. The long time span for full site utilization combined with predicting costs that will be paid in far future years relies on a large number of assumptions including the certainty of current environmental legislation, a predictable rate of inflation for costs associated with landfill work and engineering, and an even flow of waste landfilled each year. Landfilling estimates do not include allowances for population change, change in landfilling from industrial sites (such as industrial camps), the possible diversion from recycling programs currently increasing and those being developed, and the diversion potential from composting programs.

	<u>2017</u>
Knockholt Landfill Phase One, Two, and Three	
Estimated closure costs	\$ 1,114,305
Estimated post-closure costs	<u>134,660</u>
	1,248,965
Estimated capacity used	<u>47%</u>
Accrued liability for Knockholt landfill	<u>584,827</u>
Clearview Landfill Phase One	
Estimated closure costs	1,574,310
Estimated post-closure costs	<u>134,660</u>
	1,708,970
Estimated capacity used	<u>33%</u>
Accrued liability for Clearview landfill	<u>571,490</u>
Inactive sites closure estimates	<u>542,987</u>
Total closure and post-closure liability	<u><u>\$ 1,699,304</u></u>

The liability expense of \$1,699,304 is unfunded as at December 31, 2017. The Regional District has established Landfill Closure and Post-Closure Reserve Funds that is restricted for purposes of funding landfill closure and post-closure costs. As at December 31, 2017, the Landfill Closure and Post-Closure Reserve Funds have a balance of \$95,250.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

13. FEDERAL GAS TAX AGREEMENTS

Gas Tax funding is provided by the Government of Canada. The use of the funding is established by funding agreement between the Regional District and the Union of British Columbia Municipalities. Gas Tax funding may be used towards qualifying expenditures as specified in the funding agreement. The Regional District maintains the amounts in a statutory reserve.

	<u>2017</u>	<u>2016</u>
Opening balance	<u>\$ 3,852,652</u>	<u>\$ 4,136,684</u>
Add: Amounts received in the year	892,392	880,880
Interest earned	<u>60,177</u>	<u>61,059</u>
	<u>952,569</u>	<u>941,939</u>
Less: Amounts spent in the year	<u>(1,027,608)</u>	<u>(1,225,971)</u>
Closing balance	<u>\$ 3,777,613</u>	<u>\$ 3,852,652</u>

14. INVESTMENT IN PARTNERSHIP

Regional District of Bulkley-Nechako consolidates business enterprises using the modified equity method. These business enterprises are Chinook Comfor Limited Partnership and Chinook Comfor Limited.

Under the modified equity method of accounting, only the District's proportionate share in the business partnership is recorded. No adjustment is made for accounting policies of the Regional District that are different from those of Chinook Comfor Limited Partnership and Chinook Comfor Limited. Other comprehensive income of the entities are presented in the below the attached note.

Investment in Chinook Comfor Limited Partnership

	<u>March 31, 2017</u>
Investment (9% partner)	
Chinook Comfor Limited Partnership	
Accumulated Earnings	\$ 144,917
Chinook Comfor Limited	
Investment in shares	<u>998</u>
Total Investment	<u>\$ 145,915</u>

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

14. INVESTMENT IN PARTNERSHIP, continued

The following table provides condensed supplementary financial information for the Chinook Comfor Limited Partnership for the year ended March 31, 2017.

	<u>March 31, 2017</u>
BALANCE SHEET	
Assets	
Current	\$ 1,825,758
Investments	400,000
Property and equipment	<u>5,763</u>
Total Assets	<u><u>\$ 2,231,521</u></u>
LIABILITIES AND PARTNERS CAPITAL	
Current	\$ 346,705
Accrued silviculture liability	<u>255,920</u>
Total Liabilities	602,625
PARTNERS CAPITAL	
Partnership units	9,981
Partners capital	<u>1,618,915</u>
	<u>1,628,896</u>
	<u><u>\$ 2,231,521</u></u>
INCOME STATEMENT	
Revenue	\$ 2,896,845
Expenses	<u>1,278,927</u>
Net income	<u>1,617,918</u>
SHARE OF NET INCOME	
District's percentage of ownership	9%
District's share of net income	<u><u>\$ 144,917</u></u>

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

15. BUDGET

The Financial Plan adopted by the Board of Directors was prepared on a modified accrual basis while the financial statements are prepared on a full accrual basis as required by Canadian Public Sector Accounting Standards. The Financial Plan anticipated the use of surpluses accumulated in prior years to supplement current year revenues. In addition, the Financial Plan expensed tangible capital asset expenditures, debt re-payments and reserve transfers. The budget figures included in these Financial Statements represent the Financial Plan adopted by the Board of Directors with adjustments as follows:

	<u>2017</u>
Budgeted deficit per statement of financial activities	<u>\$ (1,706,832)</u>
Less: Capital expenditures	(1,111,025)
Debt principal payments	(484,713)
Contributions to reserves	(1,648,153)
Prior year net deficitis	<u>(50,939)</u>
	<u>(3,294,830)</u>
Add: Prior years net surplus	2,589,035
Withdrawal from capital reserves	1,373,225
Transfer from equity in tangible capital assets	1,019,585
Debenture issue	<u>19,817</u>
	<u>5,001,662</u>
Surplus in the Financial Plan	<u>\$ -</u>

16. FUND ALLOCATION

The accumulated surplus at the end of the year is comprised of the following Funds:

	<u>2017</u>	<u>2016</u>
Operating	\$ 5,232,648	\$ 1,338,459
Reserves	3,638,595	3,187,593
Capital	(6,486,364)	(4,096,248)
Non-Financial Assets	<u>14,467,595</u>	<u>14,637,759</u>
	<u>\$ 16,852,474</u>	<u>\$ 15,067,563</u>

REGIONAL DISTRICT OF BULKLEY-NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

17. FINANCIAL INSTRUMENTS

The Regional District's financial instruments are comprised of cash, temporary investments, accounts receivable, debt reserve funds –Municipal Finance Authority, debentures recoverable from municipalities, accounts payable and accrued liabilities, debentures issued for municipalities, and debentures issued for the Regional District.

Liquidity risk

Liquidity risk is the risk that the Regional District will encounter difficulty in meeting obligations associated with financial liabilities. The Regional District is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, debentures issued for municipalities and debentures issued for the Regional District. The Regional District manages this risk by holding a sufficient amount of funds in highly liquid investments, and closely monitoring cash flows.

Credit risk

Credit risk is the risk that the Regional District will incur financial losses if a debtor fails to make payments when due. The Regional District is exposed to credit risk on its debenture recoverable from municipalities and accounts receivable. Risk in respect to the debentures recoverable from municipalities is managed primarily by the policies put in place by the Municipal Finance Authority of British Columbia ("MFA"). The maximum exposure to credit risk in respect to accounts receivable is limited to the carrying amount of accounts receivable, which is managed by credit policies such as limiting the amount of credit extended and obtaining security deposits where appropriate.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Regional District is mainly exposed to interest rate risk.

Interest Rate Risk

Interest rate risk is the risk that the Regional District's debt servicing costs and the value of certain investments will fluctuate due to changes in interest rates. In respect of debt servicing costs, the risk is minimal as all of the Regional District's long-term debentures are fixed rate, and is usually refinanced every five to ten years as that is when most underlying debentures issued by the MFA mature. Investments subject to interest rate risk include guaranteed investment certificates (Note 2). The amount of risk is minimal due to the short terms of the investments.

18. COMPARATIVE FIGURES

Certain prior year figures, presented for comparative purposes, have been reclassified to conform to the current year's financial statement presentation.

REGIONAL DISTRICT OF BULKLEY-NECHAKO

SCHEDULE OF EXPENSES BY OBJECT

For the year ended December 31, 2017

	<u>2017</u>		<u>2016</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Staff remuneration and benefits	\$ 4,114,461	\$ 3,791,870	\$ 3,653,901
Purchased services and supplies	5,416,125	2,860,657	3,618,178
Payments to societies	2,200,133	2,031,777	2,361,307
Payments to municipalities	762,507	762,507	689,021
Directors' remuneration	379,166	330,069	319,261
Interest on debentures	110,496	260,949	338,322
Municipal debt payments	548,174	219,910	258,254
Insurance and permits	171,259	167,487	161,433
Electoral area grants-in-aid	337,181	149,706	130,009
Directors' travel and expenses	154,784	89,424	88,498
Staff travel, upgrading and conferences	94,490	81,994	88,364
Memberships and dues	39,322	36,502	36,540
Interest	11,000	20,779	9,691
Elections, referenda and studies	35,514	17,576	16,597
Volunteer benefits	3,550	3,164	3,000
Bad debts	-	2,879	4,136
First Nations dialogue	10,000	-	-
Amortization	1,019,585	932,151	926,953
	<u>\$ 15,407,747</u>	<u>\$ 11,759,401</u>	<u>\$ 12,703,465</u>

See notes to the consolidated financial statements.

REGIONAL DISTRICT OF BULKLEY-NECHAKO
SCHEDULE OF CONTINUITY OF RESERVE FUNDS

For the year ended December 31, 2017

	<u>2017</u>	<u>2016</u>
BALANCE AT BEGINNING OF THE YEAR	\$ 7,040,245	\$ 7,025,489
Contribution to funds	1,745,715	1,633,575
Interest earned on funds	113,313	108,406
Withdrawals from funds	<u>(1,483,065)</u>	<u>(1,727,225)</u>
BALANCE AT END OF THE YEAR	7,416,208	7,040,245
Less: Federal Gas Tax recorded as deferred revenue (Note 13)	<u>3,777,613</u>	<u>3,852,652</u>
	<u>\$ 3,638,595</u>	<u>\$ 3,187,593</u>
REPRESENTED BY THE FOLLOWING RESERVE FUNDS		
911 Capital	\$ 505,751	\$ 448,637
911 Vehicle	2,642	1,748
Administrative Equipment	41,978	31,445
Administration/Planning Vehicle	34,167	71,760
Building	77,651	61,630
Building Inspection Vehicle	12,265	3,169
Bulkley Valley Pool	1,111,858	835,702
Burns Lake Arena	68,456	3,683
Burns Lake Rural Fire Protection	5,076	48
Election	54,207	45,965
Emergency Prep	46,707	42,085
Environmental Services vehicle	62,868	80,371
Federal Gas Tax	3,777,613	3,852,652
Fort Fraser Sewer	150,075	131,976
Fort Fraser Rural Fire Protection	87,271	82,493
Fort Fraser Water	526,557	459,228
Fort St. James Rural Fire Protection	81,306	70,182
Glacier Gulch Water Diversion	2,259	2,225
Houston Rural Fire Protection	15,418	13,949
Insurance	22,217	11,610
Lakes District Airport	12,519	7,380
Landfill Capital	351,331	473,217
Luck Bay Rural Fire Protection	14,367	9,199
Planning Plotter	18,563	36,557
Smithers Rural Fire Protection	129,929	118,074
Southside Rural Fire Protection	122,305	71,565
Telkwa Rural Fire Protection	38,615	32,093
Vanderhoof Rural Fire Protection	36,452	35,904
Weed Control vehicle	<u>5,785</u>	<u>5,698</u>
	7,416,208	7,040,245
Less: Federal Gas Tax reserve recorded as deferred revenue (Note 13)	<u>3,777,613</u>	<u>3,852,652</u>
	<u>\$ 3,638,595</u>	<u>\$ 3,187,593</u>

See notes to the consolidated financial statements.

Regional District of Bulkley-Nechako
STATEMENT OF TANGIBLE CAPITAL ASSETS

For the year ended December 31, 2017

	Land	Building	Engineered Structures					2017 Total	2016 Total
			Equipment / Vehicles	Water	Sewer	Landfills	Transfer Stations		
COST									
Opening Balance	\$ 294,595	\$ 6,798,588	\$ 6,037,184	\$ 1,109,808	\$ 718,502	\$ 4,149,717	\$ 4,662,457	\$ 23,770,851	\$ 23,041,880
Add: Additions	-	85,037	244,714	102,342	-	315,165	5,629	752,887	846,212
Less: Disposals	-	-	28,573	-	-	-	-	28,573	117,241
Less: Write-downs	-	-	-	-	-	-	-	-	-
Closing Balance	294,595	6,883,625	6,253,325	1,212,150	718,502	4,464,882	4,668,086	24,495,165	23,770,851
ACCUMULATED AMORTIZATION									
Opening Balance	-	2,361,973	2,681,345	704,787	363,820	1,508,557	1,566,460	9,186,942	8,341,498
Add: Amortization	-	165,598	466,511	30,093	15,195	145,926	108,828	932,151	926,953
Less: Acc. Amortization on Disposals	-	-	25,584	-	-	-	-	25,584	81,509
Closing Balance	-	2,527,571	3,122,272	734,880	379,015	1,654,483	1,675,288	10,093,509	9,186,942
Net Book Value for year ended									
December 31, 2017	\$ 294,595	\$ 4,356,054	\$ 3,131,053	\$ 477,270	\$ 339,487	\$ 2,810,399	\$ 2,992,798	\$ 14,401,656	\$ 14,583,909
Net Book Value for year ended	\$ 294,595	\$ 4,436,615	\$ 3,355,839	\$ 405,021	\$ 354,682	\$ 2,641,160	\$ 3,095,997	\$ 14,583,909	\$ 14,583,909

See notes to the consolidated financial statements.