

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT
Consolidated Financial Statements
Year Ended December 31, 2012

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

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Year Ended December 31, 2012

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Management's Responsibility for Financial Reporting

The Consolidated financial statements of Regional District of Alberni-Clayoquot have been prepared in accordance with Canadian public sector accounting standards for British Columbia local governments and are outlined under "Significant Accounting Policies" in the notes to the financial statements. Management is responsible for the integrity and objectivity of these statements as well as the supplementary statements and schedules. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. Management also maintains a program of proper business compliance.

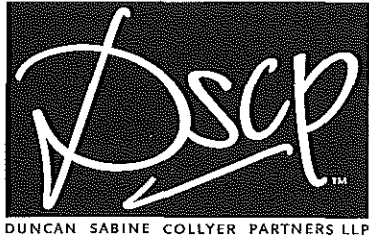
The Board of Directors is responsible for reviewing and approving the financial statements and for ensuring that management fulfils its responsibilities for financial reporting and internal control.

Duncan Sabine Collyer Partners LLP, the Regional District's independent auditors, have conducted an examination of the financial statements in accordance with generally accepted auditing standards and have expressed their opinion in a report accompanying this statement.



Teri Fong, CGA
Manager of Finance

Port Alberni, BC



CERTIFIED GENERAL ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Directors of Regional District of Alberni-Clayoquot

We have audited the accompanying consolidated financial statements of Regional District of Alberni-Clayoquot, which comprise the and the consolidated statements of operations, changes in accumulated surplus, net 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall

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Independent Auditor's Report to the Chairperson and Directors of Regional District of Alberni-Clayoquot
(continued)

presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The Regional District of Alberni-Clayoquot operates landfill closure facilities of which the closure and post-closure liabilities are not susceptible to satisfactory audit verification and are carried on the consolidated statement of financial position at \$1,553,271. Accordingly, our verification of this liability was limited to the amounts recorded in the accounts of the regional district and we were not able to determine whether any adjustments might be necessary to certain liabilities, expenses or surpluses.

Qualified Opinion

In our opinion, except for the effects of the matter described in the preceding paragraph, the consolidated financial statements present fairly, in all material respects the financial position of Regional District of Alberni-Clayoquot as at December 31, 2012 and the results of its operations and its cash flow for the year then ended in accordance with Canadian Public Sector Accounting Standards.

The consolidated financial statements for the year ended December 31, 2011 were audited by another accounting firm and are presented for comparative purposes only.

Port Alberni, B.C.
June 12, 2013

Duncan Sabers Collyer Partners LLP.

CERTIFIED GENERAL ACCOUNTANTS

DSCP

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Consolidated Statement of Financial Position

Year Ended December 31, 2012

	2012	2011 <i>(Restated Note 15)</i>
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 13,542,875	\$ 11,346,178
Portfolio investments <i>(Note 3)</i>	746	-
Accounts receivable <i>(Note 4)</i>	1,077,692	628,627
Term receivables from municipalities <i>(Note 5)</i>	8,290,562	8,831,780
Municipal Finance Authority debt reserve deposit <i>(Note 6)</i>	578,334	573,117
Inventories for resale	26,531	40,853
	23,516,740	21,420,555
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	1,326,580	522,658
Deferred revenue	258,077	207,164
Deposits <i>(Note 7)</i>	44,000	161,705
Restricted revenues <i>(Notes 8, 9)</i>	2,095,451	2,138,445
Short term borrowing <i>(Note 10)</i>	13,500	38,000
Landfill closure liability <i>(Note 11)</i>	1,553,271	1,361,336
Municipal Finance Authority debt reserve <i>(Note 6)</i>	578,334	573,117
Capital leases <i>(Note 12)</i>	178,483	142,748
Debenture debt <i>(Note 13), Schedule 1</i>	9,198,802	9,771,580
	15,246,498	14,916,753
NET FINANCIAL ASSETS	8,270,242	6,503,802
NON-FINANCIAL ASSETS		
Tangible capital assets <i>(Note 14), Schedule 2</i>	24,874,939	18,419,423
Inventories of supplies	65,924	-
Prepaid expenses	48,730	17,851
	24,989,593	18,437,274
ACCUMULATED SURPLUS	\$ 33,259,835	\$ 24,941,076

Contingent liabilities *(Note 21)*



Teri Fong, CGA
Manager of Finance

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Consolidated Statement of Operations

Year Ended December 31, 2012

	2012 Budget (See Note 23)	2012 Actual	2011 Actual (Restated Note 15)
REVENUE			
Tax requisitions	\$ 4,269,833	\$ 4,405,750	\$ 4,565,228
Grants in lieu of taxes	31,900	77,235	68,234
Services provided to other governments	101,600	96,978	124,246
Sales of services	2,732,300	3,406,872	2,880,589
Miscellaneous revenue	296,077	551,785	929,796
Government transfers			
Conditional	4,957,077	5,910,440	1,037,550
Unconditional	130,000	269,034	356,622
	12,518,787	14,718,094	9,962,265
EXPENSES			
General government services	1,007,750	1,175,746	1,090,145
Electoral area administration	2,693,107	667,717	86,237
Management of development - rural	417,500	368,215	365,851
Regional planning services	150,500	124,018	104,229
Building inspection services	212,500	193,428	190,013
Park services	175,918	77,581	117,366
Fire protection services	480,270	467,097	898,659
Landfill services	2,545,700	2,255,769	2,398,493
AV water study	11,306	556	12,285
AV Tourism marketing	2,500	17,252	87,754
Custom transit	439,000	431,263	414,063
Airport services	356,500	338,352	334,644
Amortization of tangible capital assets	-	676,601	481,812
Street lighting	1,900	2,035	1,757
Emergency planning	96,890	82,983	88,244
E911 telephone services	264,000	261,613	264,144
Vancouver Island library services	357,100	356,128	338,844
South Long Beach bike path	3,600	3,500	3,500
Grant-in-aid	312,403	284,403	310,427
Noise control	6,000	9,180	3,122
Animal control	6,100	245	1,008
Multi-purpose arena contribution	331,675	328,370	323,124
Water systems	144,784	433,162	129,271
Salmon Beach	374,000	245,921	249,783
Salmon Beach power grid transfer to BC Hydro	-	-	1,437,952
AV Health Network	-	44,799	-
	10,391,003	8,845,934	9,732,727
ANNUAL SURPLUS	\$ 2,127,784	\$ 5,872,160	\$ 229,538

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT
 Consolidated Statement of Changes in Accumulated Surplus
 Year Ended December 31, 2012

	2012 Budget (See Note 23)	2012 Actual	2011 Actual (Restated Note 15)
ACCUMULATED SURPLUS - BEGINNING OF YEAR			
As previously reported	\$ 27,117,704	\$ 27,117,704	\$ 26,405,976
Prior period restatement <i>(Note 15)</i>	-	(2,176,629)	(1,694,438)
As restated	27,117,704	24,941,075	24,711,538
ANNUAL SURPLUS	2,127,784	5,872,160	229,538
	29,245,488	30,813,235	24,941,076
Acquisition of equity from Beaver Creek Improvement District <i>(Note 16)</i>	-	2,446,600	-
ACCUMULATED SURPLUS - END OF YEAR	\$ 29,245,488	\$ 33,259,835	\$ 24,941,076

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Consolidated Statement of Changes in Net Financial Assets

Year Ended December 31, 2012

	2012 Budget (See Note 23)	2012 Actual	2011 Actual (Restated Note 15)
ANNUAL SURPLUS	\$ 2,127,784	\$ 5,872,160	\$ 229,538
Acquisition of prepaids	-	(29,347)	(7,629)
Acquisition of inventory of supplies	-	(19,732)	-
Acquisition of tangible capital assets	-	(5,061,937)	(1,049,162)
Amortization	-	676,601	481,812
Loss on write-off of tangible capital asset	-	70,638	-
Salmon Beach power grid transfer to BC Hydro	-	-	1,437,952
Acquisition of net financial assets from Beaver Creek Improvement District <i>(Note 16)</i>	-	258,057	-
	-	(4,105,720)	862,973
CHANGE IN NET FINANCIAL ASSETS	2,127,784	1,766,440	1,092,511
NET FINANCIAL ASSETS - BEGINNING OF YEAR	6,503,802	6,503,802	5,411,291
NET FINANCIAL ASSETS - END OF YEAR	\$ 8,631,586	\$ 8,270,242	\$ 6,503,802

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Consolidated Statement of Cash Flow

Year Ended December 31, 2012

	2012	2011 <i>(Restated Note 15)</i>
OPERATING ACTIVITIES		
Annual surplus	\$ 5,872,160	\$ 229,538
Items not affecting cash:		
Amortization of tangible capital assets	676,601	481,812
Loss on write-off of tangible capital asset	70,638	(1,437,952)
Bamfiels Volunteer Fire Department consolidation	-	(73,879)
Acquisition of equity from Beaver Creek Improvement District <i>(Note 16)</i>	2,446,600	-
	9,065,999	(800,481)
Changes in non-cash working capital <i>(Note 17)</i>	354,524	29,888
	9,420,523	(770,593)
FINANCING ACTIVITIES		
Term receivables from municipalities	541,218	1,473,723
Proceeds from debenture debt financing	-	939,800
Proceeds from municipal portion of debenture debt	-	1,948,000
Proceeds from capital lease financing	84,270	-
Repayment of short term borrowing	(24,500)	(1,326,500)
Repayment of municipal portion of debenture debt long term debt	(435,400)	(357,064)
Repayment of obligations under capital lease	(48,535)	(63,248)
Actuarial adjustment to municipal portion of long term debt	(137,378)	(114,874)
	(20,325)	2,499,837
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	(7,202,755)	(1,049,162)
INVESTING ACTIVITIES		
Purchase of portfolio investments	(746)	-
INCREASE IN CASH FLOW	2,196,697	680,082
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	11,346,178	10,666,096
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 13,542,875	\$ 11,346,178
CASH FLOW SUPPLEMENTARY INFORMATION <i>(Note 17)</i>		
CASH AND CASH EQUIVALENTS CONSISTS OF:		
Bank balances	\$ 13,542,875	\$ 11,341,178
Term deposits	-	5,000
	\$ 13,542,875	\$ 11,346,178

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

1. NATURE OF THE ORGANIZATION

Regional District of Alberni-Clayoquot (the District) was established under the Local Government Act of British Columbia on April 21, 1966. As with all regional districts, the District provides a number of specific and agreed upon services directly to the public and its member municipalities. The District serves as the borrowing conduit between member municipalities and the Municipal Finance Authority of British Columbia (MFA).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the District are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The consolidated financial statements reflect the combined results and activities of the consolidated entity. Interfund transactions and fund balances have been eliminated on consolidation.

Budget reporting

The unaudited budget information reported in the consolidated statement of operations, the consolidated statement of changes in accumulated surplus and the consolidated statement of changes in net financial assets represents the 2012 budget as adopted by the District's Board on March 28, 2012.

Financial instruments

Financial instruments consist of cash and short-term deposits, accounts receivable, investments, municipal debt receivable, short-term loans, accounts payable, obligations under capital leases, other liabilities, and debenture debt. Unless otherwise noted, it is management's opinion that the Regional District is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

Investments

Investments are carried at cost, which approximate market value.

Portfolio investments

Portfolio investments include investments in equity securities. Portfolio investments are reported using the cost method, a basis of accounting for portfolio investments whereby the investment is initially recorded at cost and the earnings from such investments are recognized only to the extent received or receivable. When the investment is in the form of shares, dividends received in excess of the District's pro rata share of post acquisition income are recorded as a reduction of the carrying value of the investment.

Inventory

- a) Inventories for resale - Fuel inventory is valued at the lower of cost or net realizable value.
- b) Inventories of supplies - Supplies inventory is valued at the lower of cost and net realizable value with the cost being determined on a first in, first out basis.

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REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue and expenditure recognition

Revenue is recorded in the period in which the transactions or events that gave rise to the revenue occur. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the District discharges the obligations that led to the collection of funds.

Revenues from other levels of governments, classified as grants in lieu of taxes, are recorded in the District's records as they are received.

Each Municipality and Electoral Area within the Regional District is requisitioned for their portion of each service in which they participate. These funds are then levied by the Municipalities and the Province (for Electoral Areas) to individual taxpayers and turned over to the District by August 1 of each year.

Expenditures are recorded on an accrual basis and are recognized in the period in which the goods and services are acquired and a liability is incurred or transfers are due. Expenditures include the accrual of debt and related interest payable to the end of the fiscal period.

Deferred and restricted revenues

- a) Deferred revenue includes amounts received related to the curbside garbage and recycling program but not yet earned. These amounts will be recognized as revenue in the next fiscal year.
- b) Restricted revenue include amounts received for specified projects which are unspent. These amounts will be recognized as revenue when the related expenditures are incurred.

Accrued Employee Benefits

Based on obligations as determined by collective agreements and contractual arrangements, employee benefit accruals, which include an allowance for vacation entitlement and overtime benefits, are recorded in the year in which they are earned.

Post Employment Benefits

The long-term, post employment benefit liability of the regional district will be met by the Municipal Pension Plan into which both employees and the regional district contribute. The regional district is only liable for the interim retirement benefits for early retirees, from the date of retirement to the effective start date of the Municipal Pension Plan. Any liability for these benefits is accrued when the event occurs and the obligation arises.

Debenture debt

Debenture debt is recorded net of any related sinking fund installments and actuarial additions. Debt charges are charged against current revenue in the periods in which they are accrued. The debt schedule indicates the amount of debt payable in accordance with schedules received from the Municipal Finance Authority.

Government transfers

Government transfers are recognized in the consolidated financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

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REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tangible capital assets

Tangible capital assets (TCAs) are recorded at cost and amortized on a straight line basis, based on their expected useful life. The expected useful life of the District's TCAs are as follows:

Airport	10, 15, 25, 40 and 50 years
Fire departments	5, 7, 15, 25, 40 and 50 years
Office and administration	5, 7 and 40 years
Land	Not amortized
Landfills	Projected closures - 2095 and 2096; 10, 25 and 40 years
Parks	5, 10, 15 and 25 years
Salmon beach	10, 25 and 50 years
Water systems	25 years
Beaver Creek water system	5, 15, 20, 50 and 60 years

The District's threshold to capitalize TCAs varies between \$2,500 and \$5,000 with the exception of land which is always capitalized. Capital projects under construction are not amortized until the asset is put into use. Assets contributed to the Regional district are recorded at fair value at the time of contribution.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 amounts of revenues, expenses, gains, and losses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Since a precise determination of many assets and liabilities depends on future events, actual results may differ from such estimates and approximations. Significant areas requiring the use of estimates include the amortization of tangible capital assets and land fill closure obligations.

3. PORTFOLIO INVESTMENTS

	2012	2011
Alberni District Co-op Association equity shares	\$ 746	\$ -

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

4. ACCOUNTS RECEIVABLE

	2012	2011
Trade and other receivables	\$ 447,792	\$ 575,788
Goods and services tax recoverable	140,572	64,008
Government of Canada	382,278	-
Province of British Columbia	67,695	-
Local governments	40,355	-
Subtotal	1,078,692	639,796
Less allowances for doubtful accounts	(1,000)	(11,170)
Accounts receivable - net	\$ 1,077,692	\$ 628,626

5. TERM RECEIVABLES FROM MUNICIPALITIES

Pursuant to the Local Government Act, the Regional District acts as the agency through which its member municipalities borrow funds from the Municipal Finance Authority (MFA). The annual cost of servicing this municipal debt is recovered entirely from the borrowing member municipality. However, in the event of default the Regional District is contingently liable to the MFA for this debt.

	2012	2011
City of Port Alberni	\$ 3,376,316	\$ 3,618,804
District of Tofino	1,050,912	1,087,429
District of Ucluelet	1,979,411	2,050,037
Multiplex Arena	1,883,924	2,075,510
	\$ 8,290,563	\$ 8,831,780

6. DEBT RESERVE FUND

The Municipal Finance Authority of British Columbia provides capital financing for Regional Districts and their Member Municipalities. The Authority is required to establish a Debt Reserve Fund into which each Regional District and Member Municipality, who share in the proceeds of a debt issue through the District, are required to pay certain amounts set out in the debt agreements. Interest earned on these funds (less administrative expenses) becomes an obligation of the Authority to the Regional District. If at any time insufficient funds are provided by the Regional District or Member Municipalities, the Authority will then use these funds to meet payments on its obligations. When this occurs, the Regional District may be called upon to restore the fund.

7. DEPOSITS

Performance deposits are funds collected from various property developers and held as security to ensure the completion of specified agreed on works. These funds will be released once the related works are completed, or used by the District to complete the works for which they are held.

	2012	2011
Performance deposits	\$ 44,000	\$ 161,705

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

8. RESTRICTED REVENUES

	2012	2011 (Restated Note 15)
Development cost charges (Note a)	\$ 3,649	\$ -
Deferred project contribution - Beaver Creek North Reservoir (Note b)	64,315	-
Gas tax unspent funds (Note 9)	2,027,487	2,138,445
	\$ 2,095,451	\$ 2,138,445

- a) The regional district receives contributions from developers for the development of the water and sewer infrastructure. These restricted contributions are recognized as revenue in the years in which the capital projects are undertaken. Developer contributions paid in advance of infrastructure works are recorded as restricted revenue. Developer contributions received during the year were \$3,649 (2011 - \$Nil). Interest earned on developer contributions is restricted and deferred; interest earned during the year was \$Nil (2011 - \$Nil). Developer contributions expended on capital projects during the year was \$Nil (2011 - \$Nil).
- b) As a result of the conversion of the Beaver Creek Improvement District to an electoral area of the Regional District (Note 16) on May 31, 2012, the Regional District assumed responsibility for the North Reservoir Project. A \$150,000 project contribution was received in 2010 from the Kackaamin Family Development Centre (formerly known as Kakawis) to be used to partially offset the costs of upgrading the North Reservoir booster pump station, replacing existing 4 inch main to 6 inch main and using any remaining funds to replace existing 6 inch main with new 8 inch main for the North Beaver Creek Road Area. As the contributions are externally restricted in their use, they are recognized as revenue contributions when the eligible related expenditures are incurred. The unspent portion of funds as at December 31, 2012 is \$64,315 (May 31, 2012 - \$64,315).

9. GAS TAX AGREEMENT PROGRAM

Gas Tax Agreement and Public Transit Agreement funding is provided by the Government of Canada. Public Transit Infrastructure Program funding is provided by the Province of British Columbia. The use of the funding is established by a funding agreement between the local government and the Union of British Columbia Municipalities. Gas Tax Agreement funding may be used toward designated public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements. Public Transit Agreement and Public Transit Infrastructure Program funding may be applied towards the cost of designated public transit projects, as specified in the funding agreements. The deadline to expend these funds is March 31, 2019.

	2012	2011 (Restated Note 15)
Opening balance of unspent funds	\$ 2,138,445	\$ 1,665,764
Add amount received during the year	452,069	452,069
Add interest earned	29,180	20,612
Less eligible expenditures made during the year	(592,208)	-
Closing balance of unspent funds	\$ 2,027,486	\$ 2,138,445

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

10. SHORT TERM BORROWING

The following amounts have been borrowed from MFA on a short term basis. At December 31, 2012 interest charged by the MFA was 1.72%.

	2012	2011
Salmon Beach Land	\$ 13,500	\$ 27,000
Sproat Lake Park	-	11,000
	<u>\$ 13,500</u>	<u>\$ 38,000</u>

11. SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE LIABILITY

The Regional District of Alberni-Clayoquot operates the Alberni Valley Landfill and the West Coast Landfill. These sites are subject to closure and post-closure requirements as determined by the British Columbia Ministry of Environment. In accordance with Public Sector Accounting and Auditing Standards, financial statements should recognize a liability for closure and post-closure care as a landfill site's capacity is used. Each year the Regional District makes a contribution to the Closure and Post Closure Fund to offset future liabilities that will be incurred when the landfills reach capacity and are closed. The estimated closure date of the Alberni Valley Landfill is 2096 while the estimated closure date of the West Coast Landfill is 2095. A capacity study for the Alberni Valley Landfill was completed in 2012 and is awaiting approval from the Province of British Columbia Ministry of Environment.

12. OBLIGATIONS UNDER CAPITAL LEASES

The Regional District has financed assets under capital leases in the amount of \$243,320 (2011 - \$284,533), consisting of the Bamfield Fire Hall and the Kubota loader. The lease for the Salmon Beach Pumper ended during the year. Principal payments on these capital leases in 2012 totaled \$48,535 (2011 - \$63,248). The outstanding obligation balance for leased capital assets as at December 31, 2012 was \$178,423 (2011- \$142,748).

All capital leases are held by the MFA Leasing Corporation. While payments are fixed for the term of the lease, interest rates are variable daily based upon the Canadian prime rate minus 1%. An interest adjustment is made at the time of the final payment. In 2012, interest expenditures related to lease liabilities were \$3,144 (2011- \$6,696).

Lease payment commitments for the next five years are:

2013	\$ 46,913
2014	46,913
2015	46,913
2016	34,751
2017	<u>10,339</u>
Total minimum lease payments	185,829
Less: amount representing interest	<u>(7,406)</u>
Net obligation under capital lease	<u>\$ 178,423</u>

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

13. DEBENTURE DEBT

Currently, all borrowings for the District are entered into with the MFA. Debt interest costs are charged against revenue as incurred. The debenture debt "Schedule 1" reflects the amount of debenture debt payable.

Principal payments and sinking fund installments due within the next five years and thereafter are as follows:

2013	\$	435,399
2014		435,399
2015		435,399
2016		354,021
2017		310,108
Thereafter		7,228,476
	\$	<u>9,198,802</u>

Sinking fund installments are invested by MFA and earn income which, together with principal payments, are expected to be sufficient to retire the sinking fund issues at maturity.

14. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Airport	\$ 6,462,836	\$ 727,676	\$ 5,735,160	\$ 1,773,863
Fire departments	3,901,033	1,904,969	1,996,064	2,017,038
Office and administration	1,734,252	1,150,376	583,876	507,916
Land	4,510,276	-	4,510,276	4,261,950
Landfills	9,228,211	1,418,159	7,810,052	7,803,760
Parks	226,928	98,603	128,325	105,917
Salmon beach	617,280	172,253	445,027	332,858
Water systems	2,304,686	1,228,505	1,076,181	1,153,920
Beaver Creek water system	4,342,238	2,589,777	1,752,461	-
Assets under construction	837,517	-	837,517	462,201
	\$ 34,165,257	\$ 9,290,318	\$ 24,874,939	\$ 18,419,423

Land includes a right-of way value of \$16,300 which relates to the land where the Bamfield Fire Department building is situated. For additional information about tangible capital assets see Schedule 2.

For information on assets under capital lease included above see (Note 12).

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

15. PRIOR PERIOD RESTATEMENT

The prior period has been restated as follows:

- a) During the current year it was noted that vacation pay and banked pay earned had not been accrued when earned but were being expensed when paid. In accordance with accrual accounting the prior period has been retrospectively restated to record the correction of accounting for earned vacation pay and bank pay on an accrual basis.
- b) During the current year it was noted unspent Gas Tax Agreement funding was being reported as a component of accumulated surplus. Unspent funds are restricted in their use and the prior period has been retrospectively restated to report the unspent funds and any interest earned there on as a liability.

The effects of the above restatements are as follows:

	As reported	Note a	Note b	As restated
Accrued liabilities	\$ 484,476	\$ 38,183	\$ -	\$ 522,659
Restricted revenue	-	-	2,138,445	2,138,445
Accumulated surplus December 31, 2011	27,117,704	(38,183)	(2,138,445)	24,941,076
Accumulated surplus December 31, 2010	26,405,976	(28,674)	(1,665,764)	24,711,538
Annual surplus	711,728	(9,509)	(472,681)	229,538
Changes in non-cash working capital	(452,302)	9,509	472,681	29,888
Net financial assets December 31, 2010	7,105,729	(28,674)	(1,665,764)	5,411,291
Net financial assets December 31, 2011	8,680,430	(38,183)	(2,138,445)	6,503,802

16. ACQUISITION OF EQUITY FROM BEAVER CREEK IMPROVEMENT DISTRICT

On May 31, 2012 as per Order in Council #327 issued by the Province of British Columbia, the Beaver Creek Improvement District was dissolved and the assets and liabilities of the improvement district were transferred to the Alberni-Clayoquot Regional District at book value as follows:

Cash	\$ 301,893
Accounts receivable	271,426
Portfolio investments	746
Accounts payable and accrued liabilities	(65,428)
Deferred revenue	(186,265)
Restricted revenue	(64,315)
NET FINANCIAL ASSETS	258,057
Tangible capital asset	4,746,036
Less accumulated amortization	(2,605,218)
Inventory of supplies	46,192
Prepays	1,533
TOTAL ACQUISITION OF EQUITY	\$ 2,446,600

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

17. CHANGE IN NON CASH WORKING CAPITAL AND CASH FLOW SUPPLEMENTARY INFORMATION

	2012	2011 (Restated Note 15)
Accounts receivable	\$ (449,065)	\$ (132,539)
Inventories for resale	14,322	(21,948)
Inventories of supplies	(65,924)	-
Accounts payable and accrued liabilities	803,921	(216,564)
Deferred revenue	50,913	(95,150)
Prepaid expenses	(30,879)	(7,630)
MFA Debt reserve deposit	(5,217)	(91,151)
Deposits	(117,705)	(60,288)
MFA debt reserve	5,217	91,151
Restricted revenues	(42,994)	444,007
Landfill closure liability	191,935	120,000
	\$ 354,524	\$ 29,888

18. FINANCIAL INSTRUMENTS

For cash, accounts receivable, other receivables, accounts payable, and other payables, the carrying value of these financial statements approximated their fair market values due to their short-term maturity or capacity for prompt liquidation. The District is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the District has adopted credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. The District does not have a significant exposure to any individual customer or counterpart. Unless otherwise noted, it is management's opinion that the District is not exposed to significant interest, currency, or credit risk arising from these financial instruments.

19. THE NORTH ISLAND 9-1-1 CORPORATION

A 9-1-1 emergency dispatch service is provided by the North Island 9-1-1 Corporation, which is owned by the Regional Districts of Comox Valley, Strathcona, Mount Waddington, Alberni-Clayoquot, Nanaimo and Powell River. The shares in the corporation are owned as follows:

Alberni-Clayoquot - 3 shares	Mount Waddington - 1 share
Comox Valley - 6 shares	Nanaimo - 5 shares
Strathcona - 4 shares	Powell River - 2 shares

The Regional District's investment in shares of the North Island 911 Corporation is recorded at cost as it does not fall under the definition of a government partnership (PS3060.06). The Regional District's share of the corporation is equal to 14.3% and the degree of control is proportionate to the ownership share. As no benefits are expected from the ownership, it has not been accounted for as an equity investment.

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

20. RELATED PARTIES

The Alberni-Clayoquot Regional District is related to the Alberni-Clayoquot Regional Hospital District as the same individuals are members of the Board of Directors of both organizations. As legislated by the Hospital District Act, the officers and employees of the Alberni-Clayoquot Regional District are the corresponding officers and employees of the Alberni-Clayoquot Regional Hospital District. Each of the Regional District and the Hospital District are separate legal entities as defined by separate Letters Patent and authorized by separate legislation. During the year the Alberni-Clayoquot Regional Hospital District purchased, at cost, \$15,000 of administrative support services from the Alberni-Clayoquot Regional District.

21. CONTINGENT LIABILITIES AND COMMITMENTS

a) CLAIMS

In the normal course of a year, the District is faced with lawsuits for damages of diverse natures. At year-end the District's estimated exposure to each such liability is either not determinable or is not considered to be significant. Claims paid by the District as a result of litigation are reported as expenditures.

b) ENVIRONMENTAL REGULATIONS

The District is subject to environmental regulations which cover different aspects of its operations. These regulations may require future expenditures to meet applicable standards and subject the District to possible penalties for past violations. Any amounts required to meet obligations will be charged to operations or capitalized, as appropriate. No amounts can be estimated at this time and therefore no liabilities have been recorded at December 31, 2012.

c) PENSION LIABILITY

The municipality 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 the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The plan has about 176,000 active members and approximately 67,000 retired members. Active members include approximately 35,000 contributors from local governments.

The most recent actuarial valuation as at December 31, 2009 indicated a \$1,024 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan. The District paid \$83,023 for employer contributions to the plan in fiscal 2012 (2011 - \$70,044). Employees contributed \$89,745 to the plan in fiscal 2012 (2011 - \$71,899).

d) SICK LEAVE ENTITLEMENTS

Based on obligations as determined by collective agreements and contractual arrangements for sick leave, employees' sick leave entitlements accumulate. However as sick leave benefits are only payable for sick leave and are not payable upon leaving the regional district the amounts are recognized as an expense only when a claim is made. As at December 31, 2012 accumulated sick leave amounted to \$245,825 (2011 - \$204,174).

(continues)

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

21. CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*

e) CONTRACTUAL OBLIGATIONS FOR LEASED PREMISES

As a result of the conversion of the Beaver Creek Improvement District to an electoral area of the Regional District (*Note 16*), the Regional District assumed the long term lease previously entered into by the Beaver Creek Improvement District effective November 1, 1961 with respect to the land on which the Improvement District's Stamp River pumphouse facilities are located. The agreement has a 99 year term and provides for annual rent of \$1 per annum. In addition, as Lessee the Regional District will pay all taxes, levies and assessments which may be assessed, charged or levied against the lands and leasehold improvements erected thereon.

f) CONTRACTUAL OBLIGATIONS FOR LEASED EQUIPMENT

As a result of the conversion of the Beaver Creek Improvement District to an electoral area of the Regional District (*Note 16*), the Regional District assumed the Improvement District lease office equipment with annual payments of \$2,628 per annum in each of the next two years. The lease expires December 31, 2015.

g) NORTH RESERVOIR PROJECT CAPITAL COMMITMENT

As a result of the conversion of the Beaver Creek Improvement District to an electoral area of the Regional District (*Note 16*), the Regional District assumed responsibility for the North Reservoir Project. The estimated North Reservoir project costs based on April and June 2009 cost estimates with known cost change orders and estimated cost increases is approximately \$426,000. To December 31, 2012 monies have been expended totaling \$209,517. The Kackaamin Family Development Centre contribution (*Note 8*) remaining to expend on this project is \$64,315 (May 31, 2012 - \$64,315). The remainder of the estimated project costs to be funded by the Regional District are \$152,000 as at December 31, 2012.

22. COMPARATIVE FIGURES

The prior year comparative figures were audited by another firm of public accountants.

23. BUDGET RECONCILIATION

Budget figures are unaudited and represent the Financial Plan Bylaw adopted by the Board on March 28, 2012. The financial plan budgeted for capital expenditures rather than amortization expense, and reflects the use of prior year operating surpluses as part of its annual budget. The carry forward of operating surpluses by department is a requirement under the Local Government Act of BC. The financial plan forms the basis for taxation and fees and charges rates which may be required for a particular year. The budget contains certain revenue and expense recognition principles that do not comply with Public Sector Accounting Standards, therefore, certain budget amounts have been restated to conform to the general purpose financial statement presentation.

Adjustments to the 2012 budgeted annual surplus

Consolidated financial plan balanced cash budget as approved March 28, 2012

	\$	-
Add transfers to reserves		5,368,469
Less surplus from prior years		(1,101,047)
Less committed surplus from prior years		(2,139,638)

Consolidated accrual budgeted annual surplus	\$	2,127,784
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REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT

Consolidated Schedule of Debenture Debt

(Schedule 1)

Year Ended December 31, 2012

Purpose	By-law	MFA Issue	Type of Security Issued	Maturity date	Term	Rate	Amount Borrowed	Total instalments to date	Actuarial addition	2012 Balance	2011 Balance	2013 Requirements as of December 31, 2012		
												Principal	Interest	
Port Alberni F1062	1062	97	Sinking fund	19 Apr 2016	25	4.650%	\$ 3,375,064	\$ 519,991	\$ 17,558	\$ 2,837,515	\$ 2,936,117	\$ 81,042	\$ 157,278	
Port Alberni F1062	1062	97	Sinking fund	19 Apr 2016	10	4.650%	438,170	234,167	7,907	196,096	240,498	36,496	20,419	
Port Alberni 1004	1004	64	Sinking fund	25 Sep 2016	10	7.250%	245,300	167,499	8,004	69,797	85,219	7,419	10,867	
Port Alberni 1060	1060	92	Sinking fund	04 Jun 2015	10	5.100%	797,642	507,107	17,627	272,908	356,971	66,436	36,293	
Ucluelet F1074	F1095	117	Sinking fund	14 Jun 2036	25	3.250%	1,948,000	46,775	-	1,901,225	1,948,000	46,775	63,310	
Ucluelet 829	F1037	73	Sinking fund	01 Dec 2015	15	6.360%	300,000	212,905	8,908	78,187	102,037	14,942	19,050	
Tofino F1062	1062	97	Sinking fund	19 Apr 2016	25	4.650%	1,250,000	192,586	6,503	1,050,911	1,087,429	30,014	58,250	
Arena F1027	F1037	73	Sinking fund	01 Dec 2020	20	6.360%	3,579,209	1,664,686	69,572	1,844,951	2,033,170	118,648	112,745	
Arena F1027	F1041	75	Sinking fund	01 Dec 2020	20	5.900%	68,332	28,059	1,300	38,973	42,339	2,067	2,084	
Salmon Beach F1079	F1096	117	Sinking fund	12 Oct 2031	20	3.250%	939,800	31,560	-	908,240	939,800	31,560	30,544	
											\$ 9,198,803	\$ 9,771,580	\$ 435,399	\$ 510,840

REGIONAL DISTRICT OF ALBERNI-CLAYOQUOT
 Consolidated Schedule of Tangible Capital Assets

(Schedule 2)

Year Ended December 31, 2012

	Cost					Accumulated Amortization					2012 Net Book Value	2011 Net Book Value
	Opening Balance	Acquisitions	Transfers (Note 16)	Disposals	Closing Balance	Opening Balance	Amortization	Transfers (Note 16)	Disposals	2012		
Airport	\$ 2,330,186	\$ 4,132,650	\$ -	\$ -	\$ 6,462,836	\$ (556,323)	\$ (171,352)	\$ -	\$ -	\$ (727,675)	\$ 5,735,161	\$ 1,773,863
Fire department	3,785,622	115,412	-	-	3,901,034	(1,768,584)	(136,385)	-	-	(1,904,969)	1,996,065	2,017,038
Office and administration	1,608,035	101,654	24,563	-	1,734,252	(1,100,119)	(50,258)	-	-	(1,150,377)	583,875	507,916
Land	4,261,950	-	248,326	-	4,510,276	-	-	-	-	-	4,510,276	4,261,950
Landfills	9,108,879	119,332	-	-	9,228,211	(1,305,119)	(113,039)	-	-	(1,418,158)	7,810,053	7,803,760
Parks	193,559	33,368	-	-	226,927	(87,642)	(10,961)	-	-	(98,603)	128,324	105,917
Salmon Beach	477,847	139,433	-	-	617,280	(144,989)	(27,264)	-	-	(172,253)	445,027	332,858
Water systems	2,298,537	6,148	-	-	2,304,685	(1,144,617)	(83,888)	-	-	(1,228,505)	1,076,180	1,153,920
Beaver Creek water system	-	60,000	4,451,770	(169,532)	4,342,238	-	(83,453)	(2,605,218)	98,894	(2,589,777)	1,752,461	-
Under construction	462,201	353,939	21,377	-	837,517	-	-	-	-	-	837,517	462,201
	\$ 24,526,816	\$ 5,061,936	\$ 4,746,036	\$ (169,532)	\$ 34,165,256	\$ (6,107,393)	\$ (676,600)	\$ (2,605,218)	\$ 98,894	\$ (9,290,317)	\$ 24,874,939	\$ 18,419,423

The accompanying notes are an integral part of these financial statements