

DISTRICT OF LANTZVILLE
FINANCIAL STATEMENTS
DECEMBER 31, 2003
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MEYERS NORRIS PENNY_{LLP}

AUDITORS' REPORT

To the Mayor and Council
District of Lantzville

We have audited the consolidated statement of financial position of the District of Lantzville as at December 31, 2003 and the consolidated statements of financial activities, changes in financial position, changes in operating fund balances, changes in capital fund balances and changes in reserve fund balances for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the District as at December 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian Generally Accepted Accounting Principles for British Columbia Municipalities.

Meyers Norris Penny LLP

Nanaimo, B.C.

CHARTERED ACCOUNTANTS

February 26, 2004

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**DISTRICT OF LANTZVILLE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2003**

December 31, 2003

FINANCIAL ASSETS

Cash (note 3)	\$ 2,667,147
Accounts receivable (note 4)	383,569
	<u>3,050,716</u>

LIABILITIES

Accounts payable and accrued liabilities (note 5)	61,358
Restricted revenue (note 7)	29,425
Long term debt (note 6)	167,868
	<u>258,651</u>

NET FINANCIAL ASSETS

2,792,065

NON-FINANCIAL ASSETS

Investment in Lantzville Woodlot Corporation (note 8)	272,445
Physical assets (note 9)	5,821,547
	<u>6,093,992</u>
	<u>\$ 8,886,057</u>

FUND BALANCES (note 2(a))

Operating	\$ 1,408,670
Capital	1,823,709
Reserve (note 11)	<u>3,232,379</u>
	<u>5,653,678</u>

EQUITY IN PHYSICAL ASSETS (note 10)

	<u>\$ 8,886,057</u>
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APPROVED:

Jane Ayers
Jane Ayers, Treasurer

See notes to consolidated financial statements.

**DISTRICT OF LANTZVILLE
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
FOR THE SIX MONTH PERIOD FROM JUNE 25, 2003 TO DECEMBER 31, 2003 (Note 1)**

	For the six month period from June 26 to	
	<u>December 31, 2003</u>	<u>Budget</u>
REVENUE		
Taxes	\$ 414,549	\$ 376,700
Revenue from own sources	193,378	150,000
Interest and penalties	39,012	14,000
Provincial transfers	1,046,149	677,374
Transfers from the Lantzville Improvement District (note 1)		
Surplus	7,717,974	1,725,650
Assumption of long-term debt	239,666	
Other	2,236	6,850
	<u>9,652,964</u>	<u>2,950,574</u>
 EXPENDITURES		
General government services	237,673	398,450
Legislative	40,063	48,260
Protective services	74,827	487,695
Interest on long-term debt	13,032	26,100
Environmental health	60,056	60,500
Parks & recreation	19,767	28,850
Street lighting	23,511	23,750
Sewer	311	340
Water	94,053	86,675
Engineering		60,000
Physical assets transferred from Lantzville Improvement District	6,044,495	
	<u>6,607,788</u>	<u>1,220,620</u>
 EXCESS OF REVENUE OVER EXPENDITURES	3,045,176	1,729,954
Transfer of land to Lantzville Woodlot Corporation (note 8)	259,000	
Principal repaid	(71,797)	(71,800)
INCREASE IN CONSOLIDATED FUND BALANCES	<u>3,232,379</u>	<u>1,658,154</u>
 CONSOLIDATED FUND BALANCES, END OF PERIOD	<u>\$ 3,232,379</u>	<u>\$ 1,658,154</u>

See notes to consolidated financial statements.

DISTRICT OF LANTZVILLE
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE PERIOD FROM INCEPTION ON JUNE 25, 2003 TO DECEMBER 31, 2003(Note 1)

For the six month period
from June 26 to
December 31, 2003

OPERATING ACTIVITIES

Excess of Revenues Over Expenditures	\$3,045,176
Changes in non-cash financial assets	
(Increase) in accounts receivable	(383,570)
Increase in restricted revenue	29,425
Increase in accounts payable	61,358
	(292,787)
	2,752,389

FINANCING ACTIVITIES

Provision of land for Lantzville Woodlot Corporation	259,000
Decrease in debt	(71,797)
	187,203

INVESTING ACTIVITIES

Investment in Lantzville Woodlot Corporation	(272,445)
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INCREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, beginning	2,667,147
CASH AND CASH EQUIVALENTS, ending	\$ 2,667,147

See notes to consolidated financial statements.

DISTRICT OF LANTZVILLE
CONSOLIDATED STATEMENT OF CHANGES IN OPERATING FUND BALANCES
FOR THE SIX MONTH PERIOD FROM JUNE 25, 2003 TO DECEMBER 31, 2003 (Note 1)

	For the six month period from June 26 to <u>December 31, 2003</u>		<u>Budget</u>
REVENUE	\$	414,549	\$ 376,700
Taxes		193,378	150,000
Revenue from own sources		22,957	14,000
Interest and penalties		1,046,149	677,374
Provincial transfers		866,191	681,500
Transfer from the Lantzville Improvement District		2,236	6,850
Other			
		<u>2,545,460</u>	<u>1,906,424</u>
 EXPENDITURES			
General government services		225,125	313,450
Legislative		40,063	48,260
Protective services		59,477	69,400
Interest on long-term debt		13,032	26,100
Environmental health		60,056	60,500
Parks & recreation		10,284	12,350
Street lighting		23,511	23,750
Sewer		311	340
Water		72,711	86,675
Engineering			60,000
		<u>504,570</u>	<u>700,825</u>
 EXCESS OF REVENUE OVER EXPENDITURES		2,040,890	1,205,599
Transfer from capital fund		259,000	
Transfers to capital		(58,723)	(519,795)
Transfers to reserves		(760,700)	(614,004)
Principal repaid		(71,797)	(71,800)
INCREASE IN CONSOLIDATED FUND BALANCES		<u>1,408,670</u>	<u>-</u>
 CONSOLIDATED FUND BALANCES, END OF PERIOD	<u>\$</u>	<u>1,408,670</u>	<u>\$ -</u>

See notes to consolidated financial statements.

DISTRICT OF LANTZVILLE
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL FUND BALANCES
FOR THE SIX MONTH PERIOD FROM JUNE 25, 2003 TO DECEMBER 31, 2003 (Note 1)

	For the six month period from June 26 to <u>December 31, 2003</u>	<u>Budget</u>
REVENUE ALLOCATED TO CAPITAL FUND		
Transfer from the Lantzville Improvement District	\$ 5,804,829	
Assumption of long-term debt of Lantzville Improvement District	239,666	
INTERNAL TRANSFERS		
From revenue funds	58,723	519,795
	<hr/> 6,103,218 <hr/>	519,795
 EXPENDITURES		
General government services	12,548	85,000
Legislative	15,350	418,295
Protective services		
Environmental health	9,483	16,500
Parks & recreation		
Street lighting		
Sewer	21,342	
Water		
Engineering		
Transfer of physical assets from the Lantzville Improvement District	6,044,495	
Less: land transferred to Lantzville Woodlot Corporation	(259,000)	
	<hr/> 5,844,218 <hr/>	519,795
 INCREASE IN CONSOLIDATED FUND BALANCES		
Transfer to operating fund	259,000	-
	(259,000)	
 CONSOLIDATED FUND BALANCES, END OF PERIOD	 <hr/> \$ - \$ - <hr/>	

See notes to consolidated financial statements.

DISTRICT OF LANTZVILLE
CONSOLIDATED STATEMENT OF CHANGES IN RESERVE FUND BALANCES
FOR THE SIX MONTH PERIOD FROM JUNE 25, 2003 TO DECEMBER 31, 2003 (Note 1)

	For the six month period from June 26 to <u>December 31, 2003</u>	<u>Budget</u>
TRANSFERS FROM REVENUE FUNDS		
Transfer from the Lantzville Improvement District	\$ 1,046,954	1,044,150
From revenue funds	760,700	622,404
Interest earned	16,055	
	1,823,709	1,666,554
INCREASE IN CONSOLIDATED FUND BALANCES		
CONSOLIDATED FUND BALANCES, END OF PERIOD	\$ 1,823,709	\$ 1,666,554

See notes to consolidated financial statements.

**DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

1. INCORPORATION OF THE DISTRICT OF LANTZVILLE

The District of Lantzville is a municipality that was incorporated on June 25, 2003 pursuant to the issue of letters patent dated April 3, 2003. All of the assets, liabilities and operations of the Lantzville Improvement District and the Sunset Beach Improvement District were transferred to the District of Lantzville effective midnight June 25, 2003, as required by the Order of the Lieutenant Governor in Council of the Province of British Columbia dated April 3, 2003. These improvement districts were subsequently dissolved.

A summary of the assets, liabilities and surplus transferred from these improvement districts is provided below.

	<u>Lantzville Improvement District</u>	<u>Sunset Beach Improvement District</u>
Financial assets	\$2,423,777	\$208
Liabilities	<u>750,298</u>	
Net financial assets	1,673,479	
Non- financial assets at cost	3,887,383	
Adjustment to market value	<u>2,157,112</u>	
Surplus	<u>\$7,717,974</u>	<u>\$208</u>
<u>Comprised of:</u>		
Reserves	\$1,046,954	
Unappropriated surplus	866,191	
Equity in physical assets	<u>5,804,829</u>	
	<u>\$7,717,974</u>	

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The District of Lantzville, (the District), follows accounting principles generally accepted for British Columbia municipalities. The financial statements have been prepared using guidelines issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The financial resources and operations of the District have been consolidated for financial statement purposes and include the accounts of all of the funds of the District, the General, Water, Sewer, Capital and Reserve Funds.

Operating Funds – These funds comprise the principal operating activities of the District and include the sewer and water utilities. As at December 31, 2003, the fund balances were as follows:

General revenue fund	\$1,083,430
Water revenue fund	324,219
Sewer revenue fund	<u>1,021</u>
Total	<u>\$1,408,670</u>

DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Capital Funds – These funds are used to acquire capital assets. The fund balances represent the differences between the cost of capital assets acquired and the funding which has been obtained. As at December 31, 2003 all capital asset acquisitions were fully funded. Accordingly, the December 31, 2003 balances of the capital funds relating to the General, Sewer and Water Funds were zero.

Reserve Funds – These funds have been created to hold assets for specific future requirements. They are comprised of the funds shown in Note 11.

(b) Accrual accounting

The District uses the accrual method for reporting revenues and expenditures.

(c) Physical assets

Physical assets purchased or constructed are reported as capital expenditures and are classified according to their functional use. Physical assets that are donated are reported at fair market value at the time of donation. Amortization is not recorded, since the District follows a policy of appropriating surplus for major asset replacements and improvements.

(d) Restricted revenues

Receipts that are restricted by the legislation of senior governments are deferred and reported as restricted revenues. When qualifying expenditures are incurred, restricted revenues are brought into revenue at equal amounts.

Revenues received in advance of related expenditures are deferred until they are earned by being matched against those expenditures.

(e) Financial instruments

The District's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and long term debt. Unless otherwise noted, it is management's opinion that the District is not exposed to significant interest, credit or currency risks arising from these financial instruments.

(f) Use of estimates

Preparation of financial statements in accordance with accounting principles generally accepted for municipalities requires management to make estimates based upon assumptions. These estimates and assumptions affect the amounts of assets and liabilities reported or disclosed as at the date of the financial statements and the reported amount of revenues and expenditures during the period. Significant areas requiring the use of management estimates relate to the collectibility of accounts receivable, deferred charges and provisions for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

**DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

3. CASH

Cash balances include amounts designated for specific future purposes (note 11).

	December 31
	<u>2003</u>
Cash available for current operations	\$ 843,438
Cash designated for asset replacement	<u>1,823,709</u>
	<u>\$2,667,147</u>

Cash balances earn interest at the rate of prime minus 2%.

4. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2003 comprise the following:

Other governments	\$295,033
Parcel taxes	24,361
User fees and other	<u>64,175</u>
	<u>\$383,569</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable as at December 31, 2003 comprise the following:

General	\$51,295
Salaries, wages and benefits	<u>10,064</u>
	<u>\$61,358</u>

6. LONG TERM DEBT

In accordance with the provisions of Bylaw 156, on December 11, 1985 the Lantzville Improvement District issued a debenture to the Province of British Columbia to finance the construction of a new fire hall and the purchase of a new fire engine. The District assumed this liability upon incorporation on June 25, 2003. The debenture incurs interest at the rate of 10.875% and is payable in annual installments of \$97,861 including principal and interest. The final installment is due on December 11, 2005. The debenture is secured by a pledge of the fee collecting and taxation powers of the District.

The amounts due in each of the next two years are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 79,606	\$18,255	\$ 97,861
2005	<u>88,262</u>	<u>9,599</u>	<u>97,861</u>
	<u>\$167,868</u>	<u>\$27,854</u>	<u>\$195,722</u>

**DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

7. RESTRICTED REVENUE

Restricted revenue comprises funds transferred from the Regional District of Nanaimo that must be used to acquire parkland. The funds arose in the past as District property-owners paid cash in lieu of dedicating parkland, as required by legislation for subdividing their property. Upon incorporation, the District assumed responsibility for managing parks within its jurisdiction and accordingly received the related funds.

8. INVESTMENT IN THE LANTZVILLE WOODLOT CORPORATION

In 2003, the Ministry of Forests invited applications to manage Woodlot Licence No. W1475, relating to Crown forestland within the District. In order to qualify, a woodlot licence applicant must be a corporation and must contribute private land.

To qualify as an applicant for this woodlot licence, the District purchased all of the outstanding shares of 596321 B.C. Ltd. (the Lantzville Woodlot Corporation). The District transferred ownership of land costing \$259,000 (Lot A, District Lot 44, Wellington Land District) to the Lantzville Woodlot Corporation.

To apply for this woodlot licence on a joint basis, the Lantzville Woodlot Corporation formed a partnership with Nanoose First Nation pursuant to an agreement dated December 10, 2003. Under the terms of this partnership agreement, each partner has an equal interest in the assets and operations of the partnership. (The partnership is a separate legal entity from the Lantzville Woodlot Corporation. Accordingly, the Lantzville Woodlot Corporation retains an undivided interest in its own assets and operations.) The partnership will dissolve in the event that the Woodlot Licence No. W1475 application is not successful. As of the date of these financial statements, the Ministry of Forests has not determined who will be the successful applicant for this woodlot licence.

As at December 31, 2003, the investment in Lantzville Woodlot Corporation comprises:

Land	\$259,000
Legal and consulting fees	<u>13,445</u>
	<u>\$272,445</u>

**DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

9. PHYSICAL ASSETS

Upon incorporation on June 25, 2003, physical assets were transferred from the Lantzville Improvement District to the District of Lantzville. The transfers were recorded at their fair market value as at June 25, 2003.

	<u>June 25, 2003</u>	<u>Additions</u>	<u>Retirement/ Transfers</u>	<u>December 31, 2003</u>
General fund				
Land	\$1,211,900			\$1,211,900
Buildings	1,097,000	\$6,700		1,103,700
Equipment	650,230	30,681	17,508	663,403
	<u>2,959,130</u>	<u>37,381</u>	<u>17,508</u>	<u>2,979,003</u>
Sewer fund				
	45,600			45,600
Water fund				
Land (a)	\$333,913		\$259,000	\$74,913
Equipment	20,700	\$6,348	5,163	21,885
Engineering structures	2,685,152	6,005		2,691,157
Work in progress (b)		8,989		8,989
	<u>3,039,765</u>	<u>21,342</u>	<u>264,163</u>	<u>\$2,796,944</u>
Total all funds	<u>\$6,044,495</u>	<u>\$58,723</u>	<u>\$281,671</u>	<u>\$5,821,547</u>

(a) Land was transferred to the Lantzville Woodlot Corporation. See note 8.

(b) In 2003, the District applied for funding assistance under the Canada / British Columbia Infrastructure Program relating to a \$1,967,000 water quality upgrade project for the District's water storage and distribution system. In a letter dated September 26, 2003, Canada / British Columbia Infrastructure Program officials notified the District that the application had been approved at a maximum federal/provincial contribution of \$1,298,830, conditional on the completion of an environmental due diligence assessment. As of the date of these financial statements, the results of the environmental assessment are pending. As of December 31, 2003 engineering and planning costs expended for this project totaled \$8,989

**DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

10. EQUITY IN PHYSICAL ASSETS

Equity in physical assets represents the total physical assets less long-term debt assumed to acquire those assets. The change in equity in physical assets during the six-month from inception on June 25, 2003 to December 31, 2003 is as follows:

Equity in physical assets transferred from the Lantzville Improvement District	\$5,804,829
Add: Capital expenditures	58,723
Reduction in long term debt	71,797
Less: Transfers/retirement of assets	<u>(281,671)</u>
Equity in physical assets, December 31, 2003	<u>\$5,653,678</u>

11. RESERVE FUND BALANCES

Upon incorporation on June 25, 2003, statutory reserves were transferred from the Lantzville Improvement District to the District of Lantzville.

	<u>June 25, 2003</u>	<u>Contributions</u>	<u>Interest</u>	<u>December 31, 2003</u>
General fund				
Renewal	\$157,957	\$44,900	\$2,144	\$205,001
Fire truck	26,886		725	27,611
Park development	117,948		1,894	119,842
Capital works		444,700		444,700
	<u>302,791</u>	<u>489,600</u>	<u>4,763</u>	<u>797,154</u>
Sewer fund		<u>3,800</u>		<u>3,800</u>
Water fund				
Renewal	44,475	14,300	675	59,450
Waterworks	699,688	253,000	10,617	963,305
	<u>744,163</u>	<u>267,300</u>	<u>11,292</u>	<u>1,022,755</u>
Total all funds	<u>\$1,046,954</u>	<u>\$760,700</u>	<u>\$16,055</u>	<u>\$1,823,709</u>

**DISTRICT OF LANTZVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

12. EXPENDITURES BY OBJECT:

	For the six month Period from June 26 <u>To December 31, 2003</u>	2003 <u>Budget</u>
Salaries, wages and benefits	\$ 177,299	\$ 216,310
Physical assets	58,723	519,795
Debt servicing	13,032	26,100
Operating goods and services	314,239	458,415
Physical assets transferred from Lantzville Improvement District	<u>6,044,495</u>	
Consolidated total	<u>\$6,607,788</u>	<u>\$1,220,620</u>

13. COMMITMENTS AND CONTINGENCIES

Pension liability

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 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 defined. The plan has about 123,000 active contributors including approximately 28,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2000 indicated funding surplus of \$436 million for basic pension benefits. The Joint Trust Agreement specifies how surplus assets can be used. The actuary does not attribute portions of the surplus to individual employers. The District of Lantzville paid \$9,545 for employer contributions to the plan in the six-month period from inception on June 25, 2003 to December 31, 2003.