

BERG NAQVI LEHMANN

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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November 21, 2011

Private & Confidential

Village of Nakusp
91 - 1st Street, NW
Nakusp, BC V0G 1R0

Attention: Don Willems, Chief Financial Officer

Dear Mr. Willems:

We enclose two copies of our audit report to attach to the consolidated financial statements of the Village of Nakusp for the year ended December 31, 2010.

We wish to thank you and your staff for the assistance we received during the conduct of the audit.

Please call if you have any questions.

Yours truly,

BERG NAQVI LEHMANN

Per:

Enclosures

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Village of Nakusp

We have audited the accompanying consolidated financial statements of the Village of Nakusp, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of operations, consolidated statement of change in net financial assets and consolidated statement of cash flows 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 generally accepted accounting principles and in accordance with Section 167 of the Community Charter of BC, 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.

Auditor's 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 auditor's 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 Village'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 Village'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.

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INDEPENDENT AUDITORS' REPORT (continued)

To the Mayor and Council
Village of Nakusp

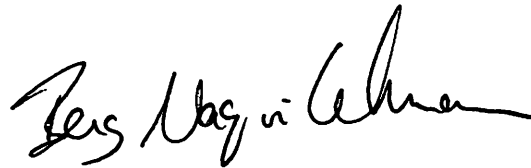
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Village of Nakusp as at December 31, 2010, and the results of its operations, change in net financial assets and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

Other Matters

The consolidated financial statements of the Village of Nakusp for the year ended December 31, 2009 were reported on by another auditor who expressed a qualified opinion dated December 16, 2010, on the consolidated financial statements without the changes noted in the following paragraph.

As part of our audit of the 2010 consolidated financial statements, we also audited the adjustments described in note 18 that were applied to amend the 2009 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2009 consolidated financial statements of the Village of Nakusp other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 consolidated financial statements taken as a whole.



Chartered Accountants

November 8, 2011

Nelson, B.C.



Responsibility For Financial Reporting

Management is responsible for the preparation of the accompanying consolidated financial statements. The consolidated financial statements have been prepared in accordance with the accounting principles disclosed in note 1 to the consolidated financial statements and include amounts that are based on estimates and judgments. Management believes that the consolidated financial statements fairly present the Village of Nakusp's consolidated financial position and results of operations. The integrity of the information presented in the consolidated financial statements, including estimates and judgments relating to matters not concluded by fiscal year-end, is the responsibility of management. The consolidated financial statements have been approved by Council.

Management has established and maintained appropriate systems of internal control including policies and procedures, which are designed to provide reasonable assurance that the Village of Nakusp's assets are safeguarded and that reliable financial records are maintained to form a proper basis for preparation of the consolidated financial statements.

The independent external auditors, Berg Naqvi Lehmann, Chartered Accountants, have been appointed by Council to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Village of Nakusp's financial position, results of operations, and changes in financial position in conformity with the accounting principles disclosed in note 1 to the consolidated financial statements. The report of Berg Naqvi Lehmann, Chartered Accountants, follows and outlines the scope of their examination and their opinion on the consolidated financial statements.

Don Willems
Finance Officer

VILLAGE OF NAKUSP

ANNUAL FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

**VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

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**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2010**

	2010	2009 (restated, note 18)
FINANCIAL ASSETS		
Cash and equivalents	720,056	57,128
Investments (note 2)	56,143	237,352
Accounts receivable (note 3)	1,168,551	1,262,249
Deposits (note 4)	8,547	-
Investment in subsidiary (note 5)	316,706	311,706
	2,270,003	1,868,435
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	742,030	494,688
Deposits (note 7)	1,100	40,000
Deferred revenue (note 8)	439,847	673,753
Capital lease (note 9)	84,532	-
Long-term debt (note 10)	641,391	377,666
	1,908,900	1,586,107
NET FINANCIAL ASSETS	361,103	282,328
NON FINANCIAL ASSETS		
Inventory of supplies and prepaids	129,525	61,642
Tangible capital assets (schedule 1)	13,840,975	11,751,608
	13,970,500	11,813,250
ACCUMULATED SURPLUS (note 11)	14,331,603	12,095,578

See Contingencies and Subsequent Events Note 12 and 13.
The Financial Statement Notes are an integral part of the Financial Statements.



Don Willems
Finance Officer

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2010**

	2010 Budget (restated, note 16)	2010 Actual	2009 Actual (restated, note 18)
REVENUE			
Municipal property taxes (note 14)	917,865	884,995	845,962
Grants in lieu of taxes	42,000	56,325	41,765
Fees and charges	1,336,726	1,229,948	1,260,398
Permits and licences	36,400	13,758	27,180
Interest income	5,000	22,311	21,124
Conditional operating transfers, other govt's	323,555	322,286	332,682
Unconditional transfers from other govt's	382,528	384,724	384,821
Income from subsidiary (note 5)	-	5,000	195,987
	3,044,074	2,919,347	3,109,919
EXPENSES			
General government	587,212	677,290	589,984
Protective services	217,218	162,565	199,347
Transportation services	527,546	404,811	471,667
Waste disposal services	65,744	76,259	68,986
Cemetary services	30,479	26,451	25,214
Economic development and promotion	70,100	58,284	73,869
Parks, recreation and cultural services	632,340	656,747	577,074
Hot Springs	458,331	403,565	503,111
Sewer services	253,382	226,553	241,696
Water services	290,319	239,871	275,551
	3,132,671	2,932,396	3,026,499
REVENUES LESS EXPENSES BEFORE CAPITAL REVENUES	(88,597)	(13,049)	83,420
CAPITAL REVENUES			
Proceeds from sale of capital assets	-	93,975	27,967
Conditional capital transfers, other govt's	2,352,905	2,155,099	1,713,863
	2,352,905	2,249,074	1,741,830
ANNUAL SURPLUS (DEFICIT)	2,264,308	2,236,025	1,825,250
Accumulated Surplus, Beginning of Year	12,095,578	12,095,578	10,270,328
ACCUMULATED SURPLUS, End of Year	14,359,886	14,331,603	12,095,578

The Financial Statement Notes are an integral part of the Financial Statements.

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010**

	2010	2009 (restated, note 18)
OPERATING ACTIVITIES		
Annual surplus	2,236,025	1,825,250
Non-cash items included in annual surplus:		
Amortization expense	528,958	485,686
(Gain)/loss on disposed of tangible capital assets	(77,543)	-
Long-term debt actuarial adjustment	(12,708)	-
Investment income from subsidiary	(5,000)	(195,987)
Changes in non-cash operating balances:		
Accounts receivable	93,698	(772,911)
Deposits receivable	(8,547)	-
Accounts payable and accrued liabilities	247,342	198,964
Inventory of supplies and prepaids	(67,883)	(15,665)
Deferred revenue and deposits	(272,806)	414,597
	2,661,536	1,939,934
CAPITAL ACTIVITIES		
Proceeds from sale of tangible capital assets	93,975	-
Built/purchased tangible capital assets	(2,511,460)	(1,968,800)
	(2,417,485)	(1,968,800)
FINANCING ACTIVITIES		
Debt proceeds	292,000	-
Debt and lease principal repaid	(54,332)	(22,946)
	237,668	(22,946)
INVESTING ACTIVITIES		
(Increase)/decrease in investments	181,209	34,779
	181,209	34,779
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	662,928	(17,033)
Cash & equivalents, beginning of year	57,128	74,161
CASH AND EQUIVALENTS, END OF YEAR	720,056	57,128

The Financial Statement Notes are an integral part of the Financial Statements.

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the Year Ended December 31, 2010**

	2010 Budget (restated, note 16)	2010 Actual	2009 Actual (restated, note 18)
ANNUAL SURPLUS	2,264,308	2,236,025	1,825,250
TANGIBLE CAPITAL ASSETS			
Acquisition of tangible capital assets	(2,741,116)	(2,634,757)	(1,968,800)
Amortization	568,757	528,958	485,686
Net book value of disposed tangible capital assets	-	16,432	-
	(2,172,359)	(2,089,367)	(1,483,114)
OTHER NON-FINANCIAL ASSETS			
Change in inventory and prepaids	-	(67,883)	(15,665)
INCREASE/(DECREASE) IN NET FINANCIAL ASSETS	91,949	78,775	326,471
Net Financial Assets (Debt), Beginning of Year	282,328	282,328	(44,143)
NET FINANCIAL ASSETS, END OF YEAR	374,277	361,103	282,328

The Financial Statement Notes are an integral part of the Financial Statements.

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
SCHEDULE 1 - TANGIBLE CAPITAL ASSETS
For the Year Ended December 31, 2010**

	Land	Park & Land Improvements	Buildings	Equipment, Furniture and Vehicles	Transportation System
COST					
Opening Balance	1,374,386	357,549	5,715,278	1,859,761	2,763,599
Add: Additons			206,215	267,500	
Less: Disposals	5,780			106,525	
Closing Balance	1,368,606	357,549	5,921,493	2,020,736	2,763,599
ACCUMULATED AMORTIZATION					
Opening Balance		6,570	2,702,327	931,150	1,376,020
Add: Amortization		7,679	164,080	127,037	67,276
Less: Accumulated Amortization on Disposals				95,873	
Closing Balance	-	14,249	2,866,407	962,314	1,443,296
Net Book Value, year ended 2010	1,368,606	343,300	3,055,086	1,058,422	1,320,303
Net Book Value, year ended 2009	1,374,386	350,979	3,012,951	928,611	1,387,579

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
SCHEDULE 1 - TANGIBLE CAPITAL ASSETS
For the Year Ended December 31, 2010**

	Sewer System	Water System	Assets Under Construction	2010 Actual	2009 Actual <small>(restated, note 18)</small>
COST					
Opening Balance	3,657,350	3,614,648	454,271	19,796,842	17,828,042
Add: Additons	1,191		2,159,851	2,634,757	1,968,800
Less: Disposals				112,305	
Closing Balance	3,658,541	3,614,648	2,614,122	22,319,294	19,796,842
ACCUMULATED AMORTIZATION					
Opening Balance	1,428,050	1,601,117		8,045,234	7,559,548
Add: Amortization	80,053	82,833		528,958	485,686
Less: Accumulated Amortization on E				95,873	
Closing Balance	1,508,103	1,683,950	-	8,478,319	8,045,234
Net Book Value, year ended 2010	2,150,438	1,930,698	2,614,122	13,840,975	
Net Book Value, year ended 2009	2,229,300	2,013,531	454,271		11,751,608

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
SCHEDULE 2 - SEGMENTED INFORMATION
For the Year Ended December 31, 2010**

	General Government	Protective Services	Transportation Services	Waste and Disposal Services	Sanitary Sewer Services	Water Services	Parks, Recreation & Cultural Services
REVENUE							
Municipal property taxes							
Grants in lieu of taxes							
Fees and charges	34,017	200	9,924	57,226	214,163	333,429	109,051
Permits and licences		965					
Interest income							
Conditional operating transfers		71,910					230,006
Unconditional transfers other govt's							
Income from subsidiary							
	34,017	73,075	9,924	57,226	214,163	333,429	339,057
EXPENSES							
Salaries and benefits	303,158	48,242	264,849	18,796	44,267	69,785	270,066
Goods and services	356,442	81,804	(7,809)	47,425	79,808	87,253	228,210
Debt Interest and issue expense		1,389	1,223		22,425		2,743
Amortization and disposals	17,690	31,130	146,548	10,038	80,053	82,833	155,728
	677,290	162,565	404,811	76,259	226,553	239,871	656,747
REVENUE LESS EXPENSES BEFORE							
CAPITAL REVENUES	(643,273)	(89,490)	(394,887)	(19,033)	(12,390)	93,558	(317,690)
CAPITAL REVENUES							
Proceeds sale of capital assets			22,000				
Conditional capital transfers		1,737,549			81,790	18,493	317,267
	-	1,737,549	22,000	-	81,790	18,493	317,267
SURPLUS/(DEFICIT)	\$ (643,273)	\$ 1,648,059	\$ (372,887)	\$ (19,033)	\$ 69,400	\$ 112,051	\$ (423)

**VILLAGE OF NAKUSP
FINANCIAL STATEMENTS
SCHEDULE 2 - SEGMENTED INFORMATION
For the Year Ended December 31, 2010**

	Cemetery Services	Hot Springs Services	Economic Dev. and Promotion	Revenues and Expenses not Attributable to Segments	Actual 2010	Actual 2009
REVENUE						(restated, note 18)
Municipal property taxes				\$ 884,995	\$ 884,995	\$ 845,962
Grants in lieu of taxes				56,325	56,325	41,765
Fees and charges	7,883	464,055	-		1,229,948	1,260,398
Permits and licences			12,793		13,758	27,180
Interest income				22,311	22,311	21,124
Conditional operating transfers	17,370		3,000		322,286	332,682
Unconditional transfers other govt's				384,724	384,724	384,821
Income from subsidiary				5,000	5,000	195,987
	25,253	464,055	15,793	1,353,355	2,919,347	3,109,919
EXPENSES						
Salaries and benefits	14,546	231,268	218		1,265,195	1,415,441
Goods and services	8,495	148,022	58,066		1,087,716	1,099,622
Debt Interest and issue expense		6,315			34,095	25,750
Amortization and disposals	3,410	17,960			545,390	485,686
	26,451	403,565	58,284	-	2,932,396	3,026,499
REVENUE LESS EXPENSES BEFORE CAPITAL REVENUES	(1,198)	60,490	(42,491)	1,353,355	(13,049)	83,420
CAPITAL REVENUES						
Proceeds sale of capital assets				71,975	93,975	27,967
Conditional capital transfers	-	-			2,155,099	1,713,863
	-	-	-	71,975	2,249,074	1,741,830
SURPLUS/(DEFICIT)	\$ (1,198)	\$ 60,490	\$ (42,491)	\$ 1,425,330	\$ 2,236,025	\$ 1,825,250

VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Consolidated Financial Statements of the Village of Nakusp (the Village) are the representations and responsibility of management. They have been prepared in accordance with generally accepted accounting principles for local government as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Budget information has been aggregated to comply with these reporting standards. Certain comparative figures have been reclassified to conform to the current year's presentation.

(b) Reporting Entity

The Consolidated Financial Statements reflect the assets, liabilities, revenues, expenses, and changes in financial position of the reporting entity which comprises all the organizations that are accountable for the administration of their financial affairs and resources to Council and are owned or controlled by the Village.

The Consolidated Financial Statements consolidates the accounts of the General, Water, Sewer operating and capital funds of the Village. All inter-fund assets, liabilities, sources of funding and expenses have been eliminated.

The Nakusp & Area Community Forest Inc (NACFOR)

NACFOR, a government business enterprise, is accounted for using the modified equity method. Under this method, the business enterprise's accounting principles are not adjusted to conform with those of the Village. The equity income for the year is recorded as revenue in the Village's consolidated statements of operations and the investment in NACFOR is adjusted accordingly.

(c) Accrual Accounting

Items recognized in the Consolidated Financial Statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which they occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Liabilities are recognized until the obligation or condition(s) underlying the liability is partly or wholly satisfied. Assets are recognized until the future economic benefit underlying the asset is partly or wholly used or lost.

**VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Revenue Recognition

Municipal Property Taxation

Taxation levies for Village services are recognized as revenue at the time of issuing the property tax notices for the fiscal year. Taxation levies imposed by other taxing authorities are not included in these statements.

Fees and Charges (including permits and licences)

Fees and charges are recognized as revenue when the service or product is provided by the Village. Fees include charges for water and sewer usage.

Government Transfers (conditional and unconditional grants)

Unconditional transfer revenue is recognized when it has been authorized by the transferor. Conditional transfer revenue is recognized when the transfer has been authorized by the transferor and the Village has met all the eligibility criteria, unless the transfer creates a liability (conditions on the use of the funds that have not yet been fulfilled by the Village). For conditional transfers for capital expenditures revenue is typically recognized when eligible expenditures are incurred by the Village.

(e) Cash & Equivalents

Cash and equivalents include liquid investments with maturities of three months or less at acquisition.

(f) Investments

Investments are recorded at cost with the exception that Municipal Finance Authority (MFA) Pooled Investment Funds are recorded at market value. The carrying value of investments is reduced to their net realizable value if in management's opinion there is a permanent decline in value.

(g) Deferred Revenue

Funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes are accounted for as deferred revenue on the Consolidated Statement of Financial Position. The revenue is recognized in the Consolidated Statement of Operations in the year in which it is used for the specified purpose.

(h) Leased Assets

Leases entered into that transfer substantially all the benefits and risks associated with ownership are recorded as the acquisition of a tangible capital asset and the incurrence of a liability (debt obligation). The asset is amortized in a manner consistent with tangible capital assets owned by the Village. The obligation is reduced

**VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased Assets (continued)

over the term of the lease, with related interest expensed in the period incurred. All other leases are accounted for as operating leases, with the rental costs expensed in the period incurred.

(i) Non-Financial Assets

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

Intangible capital assets, such as road rights of ways, water rights and mineral resources, are not recorded in the Consolidated Financial Statements.

(1) Tangible Capital Assets

Tangible Capital Assets are recorded at cost less accumulated amortization and are classified according their functional use. Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing when the asset is put in to service. Estimated useful lives are as follows:

Type	Functional Use Category	Useful Life Range (years)
General:	Land	Not amortized
	Park Improvements	15-20
	Buildings	15-50
	Equipment & Furniture	5-20
	Vehicles	5-25
Infrastructure:	Transportation (roads etc.)	15 gravel roads
		40 paved roads
		30-50 other
	Sewer	50 sewer mains
		30-50 other
	Water	50 water mains
20-50 other		

Carrying costs directly attributable to the acquisition, construction or development activity, excluding interest costs, are capitalized to the point in time the asset is substantially complete and ready for use. Contributions or donations of tangible capital assets are recorded at fair value at the date of contribution/donation.

**VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Inventory

Inventories are recorded at the lower of cost and net realizable value. Cost is generally determined on the first-in, first-out basis.

(j) Use of Estimates

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses during the period. Significant areas requiring estimates include the determination of accrued payroll liabilities, provisions for contingencies, net book value for tangible capital assets capitalized prior to 2009, and amortization expense. As such, actual amounts could differ from the estimates. If actual results differ, adjustments are reflected in operations when known.

2. INVESTMENTS

	<u>2010</u>	<u>2009</u>
MFA Money Market Fund	\$ 51,044	\$ 232,380
MFA Intermediate Fund	2,166	2,141
MFA Short Term Bond Fund	2,933	2,830
	<u>\$ 56,143</u>	<u>\$ 237,351</u>

All funds bear interest at variable rates and can be accessed on demand.

3. ACCOUNTS RECEIVABLE

	<u>2010</u>	<u>2009</u>
Municipal property taxes	\$ 154,716	\$ 172,096
Government & agency transfers (grants)	754,420	945,357
Sewer user fees	24,661	14,258
Water user fees	27,526	22,302
HST	139,793	38,109
Other	67,435	70,127
	<u>\$ 1,168,551</u>	<u>\$ 1,262,249</u>

**VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

4. DEPOSITS RECEIVABLE

	<u>2010</u>	<u>2009</u>
MFA Debt Reserve Fund - Cash Deposit*	\$ 8,547	\$ -
MFA Debt Reserve Fund - Demand Note	\$ 25,810	\$ 25,810

* Only the cash portion of the Debt Reserve Fund is reported in the Financial Statements.

The Municipal Finance Authority of British Columbia ("MFA") provides capital financing for regional districts and their member municipalities. The MFA is required to establish a Debt Reserve Fund. The MFA must then use this fund if at any time there are insufficient funds to meet payments on its obligations; this event has not occurred since the inception of MFA in 1970. If this occurs, the regional districts may be called upon to restore the fund.

Each regional district, through its member municipalities who share in the proceeds of a debt issue, is required to pay into the Debt Reserve Fund certain amounts set out in the financing agreements. The interest earned on the Debt Reserve Fund Cash Deposit, less administrative expenses, becomes an obligation of MFA to the member municipalities through the regional districts. Upon the maturity of a debt issue, the unused portion of the Debt Reserve Fund established for that issue will be discharged to the municipality, including interest earned. Use of the Cash Deposit is restricted by legislation.

5. INVESTMENT IN NAKUSP & AREA COMMUNITY FOREST INC.

Nakusp & Area Community Forest Incorporation (NACFOR) is a wholly owned subsidiary that was created for the purpose of managing a tree farm license in the Nakusp area. The condensed supplementary financial information for the period ended December 31, 2010 with 2009 comparative figures are as follows:

	<u>2010</u>	<u>2009</u>
<i>Financial Position</i>		
Assets:		
Current assets	\$ 215,080	\$ 335,119
Capital assets (logging roads)	142,376	-
	<u>357,456</u>	<u>335,119</u>
Liabilities:		
Current liabilities	2,000	23,413
Silviculture accrual	38,750	-
	<u>40,750</u>	<u>23,413</u>
Shareholders' Equity:	316,706	311,706
	<u>\$ 357,456</u>	<u>\$ 335,119</u>
<i>Results of Operations, net income for period</i>	<u>\$ 5,000</u>	<u>\$ 195,987</u>

**VILLAGE OF NAKUSP
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2010**

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2010</u>	<u>2009</u>
Payroll related	\$ 80,065	\$ 108,115
Trade accounts payable	550,588	360,572
Accruals	111,377	26,001
	<u>\$ 742,030</u>	<u>\$ 494,688</u>

7. DEPOSITS

	<u>2010</u>	<u>2009</u>
Non-refundable deposit on land sale	\$ -	\$ 39,000
Refundable deposits	1,100	1,000
	<u>\$ 1,100</u>	<u>\$ 40,000</u>

8. DEFERRED REVENUE

These funds are externally restricted for the purposes for which they were collected.

	<u>Balance Jan/1/2010</u>	<u>Contributions Received</u>	<u>Restricted Interest Income</u>	<u>Contributions Used (Revenue)</u>	<u>Balance Dec/31/2010</u>
Federal gas taxes	\$ 2,715	\$ 111,442	\$ 42	\$ 114,199	\$ -
Unconditional grant	277,697			277,697	-
Water capital grant	292,715			(6,873)	299,588
Parkland acquisition		13,193	79		13,272
Prepaid taxes	100,626	126,987		100,626	126,987
	<u>\$ 673,753</u>	<u>\$ 251,622</u>	<u>\$ 121</u>	<u>\$ 485,649</u>	<u>\$ 439,847</u>

Federal Gas Tax

Gas Tax funding is provided by the Government of Canada and use of the funding is restricted by the terms of a funding agreement between the Village and the Union of British Columbia Municipalities. Funding may be used towards certain public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements.

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9. CAPITAL LEASE

	2010	2009
Municipal Finance Authority, Dump Truck, interest at 1.25*, with blended monthly payments of \$1,563, secured by the leased asset, maturing January 2015	\$ 74,874	\$ -
Municipal Finance Authority, Fire Truck, interest at 1.25*, with blended monthly payments of \$1,927, secured by the leased asset, maturing May 2011	9,658	-
	\$ 84,532	\$ -

** Interest rate is a variable rate equal to prime less 1%. Payments are fixed using an interest rate of 1.25% resulting in a fixed payment schedule. Interest differential is adjusted for in the final payment of the lease.

Interest paid on the capital leases was \$1,550 (2009 - \$0). The future minimum lease payments for the next five years are:

	2011	\$ 28,387
	2012	18,751
	2013	18,751
	2014	18,751
	2015	1,562
		86,202
Less amount representing interest charges:		1,670
		\$ 84,532

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10. LONG TERM DEBT

	<u>2010</u>	<u>2009</u>
Municipal Finance Authority Issue 75 (10 year term), Security Issuing Bylaw 564, Hotsprings Campground, 5.69%, due December 2011	\$ 8,082	\$ 16,254
Municipal Finance Authority, Interim Financing, Loan Authorization Bylaw 573, Hotsprings Grounds, 1.25% (variable rate), due December 2014		60,900
Municipal Finance Authority Issue 110 (5 year term), Loan Authorization Bylaw 573, Hotsprings Grounds 3.35%, due April 2015	60,900	
Municipal Finance Authority Issue 63 (20 year term), Security Issuing Bylaw 476, Sewer Extentsion, 4% to June 1, 2011 then 3% to maturity due June 2016	58,967	70,204
Municipal Finance Authority Issue 79 (25 year term) Security Issuing Bylaw 571, Sewer Lift Stations, Interest: To June 3, 2013 5.491% June 3, 2013 interest rate reset date due June 2028	221,442	230,308
Municipal Finance Authority, Interim Financing, Liability Under Agreement Debt, Various Projects, 1.70% (variable rate), due January 2015 <i>This debt was fully repaid in May 2011</i>	292,000	-
	<u>\$ 641,391</u>	<u>\$ 377,666</u>

Interest paid on the long term debt was \$32,545 (2009 - \$25,750). Principle payments payable and estimated actuarial earnings on sinking funds (held by the Municipal Finance Authority) to be attributed against the debt payable in future years are:

	<u>Principle</u>	<u>Actuarial</u>	<u>Total</u>
2011	\$ 26,811	\$ 9,731	\$ 36,542
2012	21,444	8,070	29,514
2013	21,444	9,429	30,873
2014	21,444	10,851	32,295
2015	21,444	12,339	33,783
Future years:	76,025	110,359	186,384
Interim Financing Debt:	292,000		292,000
	<u>\$ 480,612</u>	<u>\$ 160,779</u>	<u>\$ 641,391</u>

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11. ACCUMULATED SURPLUS

Accumulated surplus is represented by:

	<u>2010</u>	<u>2009</u>
Unappropriated Surplus/(Deficit)		
General Fund	\$ (562,556)	\$ (748,792)
Water Fund	668,760	503,852
Sewer Fund	44,846	101,928
	<u>151,050</u>	<u>(143,012)</u>
Non-Statutory Reserves		
General Fund	426,483	352,875
Water Fund	-	-
Sewer Fund	6,915	-
	<u>433,398</u>	<u>352,875</u>
Statutory Reserves		
Operations Equipment	244,970	127,346
Fire Services Equipment	70,427	66,760
Parkland Acquisition	-	5,961
	<u>315,397</u>	<u>200,067</u>
Investment in Subsidiary (NACFOR)	316,706	311,706
Investment in Tangible Capital Assets	13,115,052	11,373,942
	<u>\$ 14,331,603</u>	<u>\$ 12,095,578</u>

The Unappropriated Surplus is the amount of Accumulated Surplus remaining after deducting the other appropriated surplus balances (see below). It is available to temporarily finance operations until planned revenues (i.e. property taxes, grants etc.) are received, or for other operating or capital purposes as determined by Council.

The Non-Statutory and Statutory Reserves are Accumulated Surplus that has been set-aside by decision of Council for a specified purpose. The Statutory Reserves have been established by bylaw in accordance with the *Community Charter* and their use is restricted by the legislation. In the normal course of operations, these funds will be used to finance the future services or capital works for which they have been appropriated.

The Investment in Subsidiary (NACFOR) is equal to the NACFOR investment value on an equity basis. In the normal course of operations this investment will not be available to finance operations, but will be maintained in support of the purposes of the investment.

Investment in Tangible Capital Assets is equal to the tangible capital assets less related long-term debt. In the normal course of operations the non-financial assets will not be available to finance operations, but will be consumed/used to provide services, and the debt will be repaid by future period revenues.

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12. CONTINGENCIES

(a) Municipal Pension Plan

The Village and its employees contribute to the Municipal Pension Plan (Plan), a jointly trusteed pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 163,000 active members and approximately 60,000 retired members. Active members include approximately 35,000 contributors from local governments.

Every 3 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, 2009, indicated an unfunded liability of \$1.024 million for basic pension benefits. The next valuation will be December 31, 2012, with results available in 2013. The actuary does not attribute portions of the unfunded liability to individual employers.

The Village paid \$79,225 for employer contributions and \$67,400 for employee contributions to the Plan in fiscal 2010 (\$85,808 and \$74,038 respectively in 2009).

(b) Regional District Debt

Debt of the Regional District of the Central Kootney ("RDCK") are, under the provisions of the provisions of the Community Charter, a direct, joint and several liability of the RDCK and each member municipality with the RDCK, including the Village.

13. SUBSEQUENT EVENT

Subsequent to year end the Village adopted Loan Authorization Bylaw 637, 2011 Hot Springs and Bylaw 637, 2011 Emergency Services Building to borrow \$820,000 in the Fall of 2011. The debt is being borrowed to fund part of the costs of the Emergency Services Building (\$110,000) and Hot Springs Infrastructure Repairs (\$710,000). The Hot Springs Infrastructure Repairs are complete at December 31, 2010 and the Emergency Services Building was completed in the Spring of 2011.

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14. PROPERTY TAXATION REVENUE

The Village is legislatively required to collect, and pay, property taxes on behalf of/to other governments. The amounts collected and paid are not recognized as revenues or expenses of the Village. Details of gross property taxes collected less amounts remitted to other governments are as follows:

	<u>2010 Budget</u>	<u>2010 Actual</u>	<u>2009 Actual</u>
Municipal Taxes Collected	\$ 849,546	\$ 839,817	\$ 802,222
Taxes collected for other Governments	1,121,423	1,224,665	1,125,820
Sewer parcel tax	16,291	-	-
Penalties and interest on taxes	25,000	19,971	21,912
	<u>2,012,260</u>	<u>2,084,453</u>	<u>1,949,954</u>
Less: transfers to other governments:			
School District - School Tax	634,484	679,381	648,323
School District - Police Tax	57,030	66,552	52,005
Regional District	344,547	391,221	344,547
Regional Hospital District	43,531	44,889	43,531
BC Municipal Finance Authority	14,767	17,365	15,541
Municipal Finance Authority	36	50	45
Municipal Property Taxes	<u>\$ 917,865</u>	<u>\$ 884,995</u>	<u>\$ 845,962</u>

15. EXPENDITURES BY OBJECT

	Fiscal 2010		
	<u>Operations</u>	<u>Capital</u>	<u>Total</u>
Salaries & benefits	\$ 1,265,195	\$ 25,867	\$ 1,291,062
Goods & services	1,087,716	2,608,890	3,696,606
Interest	34,095	-	34,095
Amortization & disposals	545,390	-	545,390
	<u>\$ 2,932,396</u>	<u>\$ 2,634,757</u>	<u>\$ 5,567,153</u>

	Fiscal 2009		
	<u>Operations</u>	<u>Capital</u>	<u>Total</u>
	(restated, note 18)		
Salaries & benefits	\$ 1,415,441	19,329	\$ 1,434,770
Goods & services	1,099,622	1,949,471	3,049,093
Interest	25,750	-	25,750
Amortization & disposals	485,686	-	485,686
	<u>\$ 3,026,499</u>	<u>\$ 1,968,800</u>	<u>\$ 4,995,299</u>

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16. BUDGET ADJUSTMENTS AND RECONCILIATION TO STATEMENT OF OPERATIONS

The Financial Plan (“Budget”) Bylaw adopted by Council on May 12, 2010 was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards, “PSAB”).

The Budget was prepared based on the legislative requirements, as set out in the *Community Charter*, which are “cash flow” based, meaning that planned revenue sources for the period must equal planned expenditures. The financial reporting requirements, as set out in the *Public Sector Accounting Handbook*, for the Financial Statements, are accrual based, as described in Note 1(c). Financial reporting requirements do not apply to the Budget.

In order to ensure comparability between the Budget and the Actual results reported in these Financial Statements, the Budget figures adopted by Council have been adjusted to conform to the Public Sector Accounting Standards as detailed in the table below. All of the budget figures shown in the budget column were included in the adopted budget, except for amortization expense which has been adjusted from nil to equal actual amortization expense. The table also demonstrates how the legislative requirement for a balanced budget (where planned revenue sources equal planned expenditures) has been met.

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**16. BUDGET ADJUSTMENTS AND RECONCILIATION TO STATEMENT OF OPERATIONS
(continued)**

	2010 Budget	2010 Actual
Surplus, Statement of Operations	\$ 2,264,308	\$ 2,236,025
Adjustments for non-cash items:		
Add back: Amortization expense	528,958	528,958
Add back: Net book value disposed TCA expense		16,432
Remove: MFA debt actuarial interest revenue		(12,708)
Remove: Subsidiary income (NACFOR)		(5,000)
Adjustments for cash items that are not PSAB revenues or expenses:		
Less: capital expenditures	(2,741,116)	(2,634,757)
Less: debt principle repayment	(23,064)	(54,332)
Plus: debt proceeds	-	415,297
Net transfer (to)/from Statutory Reserves	(29,086)	(115,330)
Net transfer (to)/from Non-Statutory Reserves		(80,523)
Net transfer (to)/from Unappropriated Surplus		(294,062)
 Financial Plan (Budget) Balance	\$ -	\$ -

17. SEGMENTED REPORTING (See Schedule 2)

The Village is a diversified municipal government institution that provides a wide range of services to its citizens such as fire protection, roads and public works, garbage collection, water and sewer systems, parks and recreation facilities and cemeteries. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The revenues and expenses that are directly attributable to a particular segment are allocated to that segment.

General Government

This segment comprises the Village's corporate support services including Finance and Administrative services (including personal, reception, records management, information systems support), operation of the municipal hall, and mayor and council expenses.

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17. SEGMENT REPORTING (continued)

Protective Services

This segment is comprised of fire protection. The volunteer fire department is responsible for providing fire suppression service, fire prevention programs, training and education.

Transportation Services

This department provides a number of services including road and storm sewer maintenance, snow removal, building maintenance.

Waste Disposal

This segment consists of providing garbage collection to citizens.

Sewer System

This segment processes and cleans sewage and ensures the Village's sewer system meets all Provincial and Federal standards.

Water System

This segment provides the Municipality's drinking water. The Village's water system meets all Provincial and Federal standards.

Public Health

Health services consists of the management of the cemetery.

Parks and Recreation

This segment provides services meant to improve the health and development of the Village's citizens. Recreational and cultural programs are provided at the arena, community centre, sportsfields and parks.

Hot Springs

This segment captures the revenues and expenses associated with the running of the Village's Hot Springs.

Economic Development and Promotion

Development and promotion services provide sustainable community economic development programs and services and support for economic business retention and development initiatives.

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18. PRIOR PERIOD RESTATEMENT

The Village retroactively accounted for:

- Additional grant revenue that was receivable for various Arena Capital Works that occurred in 2009. This revenue was not reported in 2009 in error.
- A reduction in the net book value of tangible capital assets for the Senior Citizens Recreation Center and the Nakusp Sports Complex to reflect the revised estimated historical cost of these buildings based on information that was not available in the prior year.

These changes in reporting have resulted in changes to the 2009 comparative values. In summary, these changes increased 2009 Annual Surplus by \$236,633 and decreased 2009 closing Accumulated Surplus by \$599,160. Details of the changes are as follows:

	2009
<u>Statement of Operations</u>	
Annual Surplus, as previously reported	\$ 1,588,617
Add: Conditional capital transfer (additional arena grant)	196,834
Add back: Parks, recreation & cultural expenses (less amortization)	39,799
Annual Surplus, restated	\$ 1,825,250
 <u>Statement of Financial Position</u>	
Net Financial Assets, as previously reported	\$ 85,494
Add: Receivable for conditional capital transfer (additional arena grant)	196,834
Net Financial Assets, restated	\$ 282,328
Non-Financial Assets, as previously reported	\$ 12,609,244
Less: Tangible capital assets (value parks, recreation & culture buildings)	(795,994)
Non Financial Assets, restated	\$ 11,813,250
Accumulated Surplus, as previously reported	\$ 12,694,738
Add: Conditional capital transfer (additional arena grant)	196,834
Less: Tangible Capital Assets (value parks, recreation & culture buildings)	(795,994)
Accumulated Surplus, restated	\$ 12,095,578
 <u>Opening Accumulated Surplus</u>	
Opening Accumulated Surplus, as previously reported	\$ 11,106,121
Less: Tangible capital assets (value parks, recreation & culture buildings)	(835,793)
Opening Accumulated Surplus, restated	\$ 10,270,328

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19. TRUST FUND – CEMETARY CARE FUND

Trust Funds are excluded from the Consolidated Financial Statements.

The Village operates the Catholic, Hillcrest, Women's Institute, Glenbank, and Legion cemeteries and maintains a Cemetery Care Fund in accordance with the *Cremation, Interment and Funeral Services Act* and related *Regulations*. In accordance with Act and Regulations, the Village must transfer a specified minimum percentage of certain cemetery fees into the Cemetery Care Fund. The resulting equity balance in the fund is restricted in use; interest earnings are available to the Village to fund ongoing maintenance of the cemetery as required.

The condensed financial information for the period ended December 31, 2010 with 2009 comparative figures are as follows:

	<u>2010</u>	<u>2009</u>
<i>Financial Position</i>		
Assets:		
Short-term Investments	\$ 24,867	\$ 22,183
Accrued Interest receivable	28	47
	<u>24,895</u>	<u>22,230</u>
Equity:	<u>\$ 24,895</u>	<u>\$ 22,230</u>
<i>Operations</i>		
Revenue:		
Contributions	\$ 1,549	\$ 1,739
Interest	1,116	-
	<u>2,665</u>	<u>1,739</u>
Expenses:	-	-
Change in Equity:	<u>\$ 2,665</u>	<u>\$ 1,739</u>