

June 4, 2009

PRIVATE AND CONFIDENTIAL

Board of Directors
Skeena-Queen Charlotte Regional District
100 First Avenue East
Prince Rupert, BC V8J 1A6

Dear Directors:

Enclosed are the December 31, 2008 year-end financial statements for the **Skeena-Queen Charlotte Regional District**.

Approval of these financial statements should be indicated by having the designated Board members sign the balance sheet.

We offer the following comments for your review and consideration:

Islands Waste Management Function

The Regional District had a cumulative deficit at the end of 2008 of \$159 828. This is mainly a result of the deficit in the Islands Waste Management function. The deficit in the function increased from \$267 851 to \$462 218 in the year.

The 2008 five year financial plan indicated that there would be a deficit at the end of 2008 and 2009 for this function. Local Government Act Section 815 (11) prohibits deficits from being carried forward to future years. The deficit is to be fully funded in the next year's operations.

We suggest that the taxation and billing rates be increased to deal with the deficit or that services be reduced so that the deficit is eliminated. If the deficit is not dealt with on an annual basis and the Board knowingly approves a budget with a deficit, there is a risk that the Board could be in violation of the Local Government Act and/or the Community Charter. A violation under the Act or Charter could result in loss of office and/or the Board members incurring personal liability for the expenditures.

In review of quarterly billings, it was determined that not all properties with buildings are being billed for service. It was concluded in discussion with the Regional District staff that a consistent method is not being applied in billing the service to properties with buildings. This treatment should be reviewed.

Sandspit Water System Function

In review of the Sandspit Water System billings, it was determined that only one trailer court is being billed for usage while all other facilities are contributing through a parcel tax. Bylaw 488-2006 indicates that all buildings (commercial and residential) are to be billed for water usage. There is no exclusion in the bylaw for those properties that are contributing through a parcel tax.

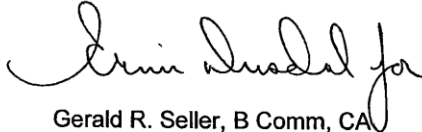
This bylaw should be reviewed to ensure it is being implemented correctly by the Regional District staff.

We thank John and the staff for their capable and courteous assistance during the audit process.

If there are any questions or comments on the enclosed financial statements and related matters, please discuss them with us.

Yours truly

CARLYLE SHEPHERD & CO.



Gerald R. Seller, B Comm, CA

GRS/th
Encl.

SKEENA-QUEEN CHARLOTTE
REGIONAL DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2008

Ernie Disdal 635-6126
Stephe Kietmann - 627-1315

**SKEENA-QUEEN CHARLOTTE
REGIONAL DISTRICT**

INDEX TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

AUDIT REPORT

CONSOLIDATED STATEMENTS

- A STATEMENT OF FINANCIAL POSITION
- B STATEMENT OF FINANCIAL ACTIVITIES
- C STATEMENT OF CASH FLOWS

NOTES

SCHEDULES

- 1 OPERATING FUND STATEMENT OF FINANCIAL ACTIVITIES
- 2 STATEMENT OF SURPLUS
- 3 STATEMENT OF CONTINUITY OF PHYSICAL ASSETS
- 4 STATEMENT OF CHANGES IN EQUITY IN PHYSICAL ASSETS
- 5 STATEMENT OF CHANGES IN RESERVE FUNDS

AUDIT REPORT

**TO THE DIRECTORS
SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT**

We have audited the statement of financial position of the Skeena-Queen Charlotte Regional District as at December 31, 2008 and the statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the Regional District's management and directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with Canadian generally accepted auditing standards. These 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 financial statements present fairly, in all material respects, the financial position of the Regional District as at December 31, 2008 and the results of its financial activities for the year then ended in accordance with Canadian generally accepted accounting principles for Regional Districts in the Province of British Columbia.


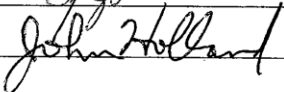
Prince Rupert, BC
April 8, 2009

Carlyle Shepherd : Co.

**SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	DECEMBER 31	STATEMENT A
	2008	2007
	\$	\$
FINANCIAL ASSETS		
Cash and investments (note 1)	650 940	832 404
Trade and other receivables	268 934	282 826
MFA deposit	241 623	268 272
Due from Municipalities	<u>14 529 746</u>	<u>14 070 629</u>
	<u>15 691 243</u>	<u>15 454 131</u>
LIABILITIES		
Accounts payable and accruals (note 4)	1 059 707	918 154
MFA debt reserve	241 623	268 272
Debentures issued for Regional District	447 550	482 750
Debentures issued for Municipalities	<u>14 529 746</u>	<u>14 070 629</u>
	<u>16 278 626</u>	<u>15 739 805</u>
NET FINANCIAL ASSETS/LIABILITIES	-587 383	-285 674
Physical assets (Schedule 3)	<u>3 994 297</u>	<u>3 954 607</u>
NET POSITION	<u>3 406 914</u>	<u>3 668 933</u>
REGIONAL DISTRICT POSITION		
Equity in physical assets (Schedule 4)	<u>3 566 742</u>	<u>3 493 193</u>
SURPLUS (DEFICIT)		
Operating Funds (Schedules 1 and 2)	-409 180	-138 466
Reserve Funds (Schedule 5)	<u>249 352</u> *	<u>314 206</u>
	<u>-159 828</u>	<u>175 740</u>
REGIONAL DISTRICT POSITION	<u>3 406 914</u>	<u>3 668 933</u>

APPROVED BY THE BOARD


 _____ Chairperson

 _____ Treasurer

**SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES**

	YEAR ENDED DECEMBER 31		STATEMENT B
	Unaudited Budget 2008	Actual 2008	Actual 2007
	\$	\$	\$
REVENUES			
Taxation	882 522	882 522	1 001 494
Grants in lieu	62 748	52 509	65 883
Sales, fees and other	1 402 097	1 277 914	1 206 174
Provincial and Federal grants	1 126 126	486 812	186 043
Municipal debt payments	<u>1 444 507</u>	<u>1 473 570</u>	<u>1 700 916</u>
	<u>4 918 000</u>	<u>4 173 327</u>	<u>4 160 510</u>
EXPENDITURES			
Administration	536 328	471 018	661 314
Electoral Areas	160 606	169 080	86 087
Municipal Debt Service	1 444 507	1 473 570	1 700 916
Planning	186 105	139 352	106 271
Industrial Development	42 899	195 155	16 467
Regional Waste Management	15 205	139	93
Helipad Construction	843	843	-
Mainland Recreation	3 500	3 704	10 000
Prince Rupert Regional Archives	74 801	74 801	74 760
North Pacific Cannery	88 551	88 551	92 500
Regional Recycling	575 704	575 240	478 857
Islands Waste Management	885 031	1 028 579	889 345
QCI Recreation Commission	94 847	90 746	83 083
Haida Gwaii / QCI Museum	61 100	61 100	53 767
Vancouver Island Regional Library	34 695	34 695	31 089
Oona River Local Telephone Service	2 704	2 704	2 704
Sandspit Fire Protection	29 304	29 440	22 000
Sandspit Water Utility	54 210	56 352	49 172
Dodge Cove Water	<u>802 800</u>	<u>13 826</u>	<u>-</u>
	<u>5 093 740</u>	<u>4 508 895</u>	<u>4 358 425</u>
NET REVENUE (DEFICIT)	-175 740	-335 568	-197 915
OPENING SURPLUS	<u>175 740</u>	<u>175 740</u>	<u>373 655</u>
CLOSING SURPLUS (DEFICIT)	<u>-</u>	<u>-159 828</u>	<u>175 740</u>

CARLYLE SHEPHERD & CO.
CHARTERED ACCOUNTANTS



SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

STATEMENT C

	2008	2007
	\$	\$
OPERATIONS		
Net revenue (deficit)	-335 568	-197 915
Trade and other receivables	12 551	73 613
Accounts payable and accruals	<u>141 553</u>	<u>245 046</u>
	<u>-181 464</u>	<u>120 744</u>
CHANGE IN CASH	-181 464	120 744
OPENING CASH AND INVESTMENTS	<u>832 404</u>	<u>711 660</u>
CLOSING CASH AND INVESTMENTS	<u>650 940</u>	<u>832 404</u>

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT

NOTES

DECEMBER 31, 2008

1. SIGNIFICANT ACCOUNTING POLICIES

The Regional District has adopted the reporting format from the recommendations by the Public Sector Accounting and Auditing Board.

Revenue and expenditures are reported on an accrual basis.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Cash and investments are reported at market value which approximates cost.

It is management's opinion that the Regional District is not exposed to significant interest, currency or credit risk arising from its financial instruments.

2. LONG-TERM DEBT

Debenture debt is with the Municipal Finance Authority and is being repaid in accordance with approved bylaws.

3. MUNICIPAL DEBENTURE DEBT

When a member municipality within the Regional District wishes to issue debenture debt through the Municipal Finance Authority of BC, the borrowing is done through the Regional District. The Regional District is therefore responsible for repayment of the debt to the Authority. When payments (principal and interest) are made on this debt, the Regional District pays the Authority and is reimbursed by the municipality.

The Regional District reports the outstanding debt borrowed on behalf of the member municipalities as both a financial asset and financial liability. Municipal debt payments are shown as a revenue and offsetting expenditure.

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT

NOTES

DECEMBER 31, 2008

4. ACCOUNTS PAYABLE AND ACCRUALS

Landfill closure costs	\$ 484 190
Federal gas tax agreement funds	308 837
Trade and other	266 680
	<u> </u>
	\$ 1 059 707

5. FEDERAL GAS TAX AGREEMENT FUNDS

Opening balance	\$ 251 234
Amount received in the year	115 868
Interest earned	16 107
Transferred to revenue	<u>-74 372</u>
Closing balance	<u>\$ 308 837</u>

The funds can only be spent on specific projects. The funds are included in accounts payable and accruals.

6. CONSOLIDATED EXPENDITURES BY TYPE

	2008	2007
Director remuneration	\$ 123 231	\$ 117 116
Director travel	56 466	56 113
Staff remuneration and benefits	775 127	805 421
Staff travel and education	41 381	35 691
Interest	33 625	33 517
Debt payments	20 338	20 338
Purchased services, grants and supplies	1 985 157	1 589 313
Municipal debt payments	<u>1 473 570</u>	<u>1 700 916</u>
	<u>\$ 4 508 895</u>	<u>\$ 4 358 425</u>

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT

NOTES

DECEMBER 31, 2008

7. LINE OF CREDIT

Canadian Imperial Bank of Commerce, authorized to \$950 000, interest at prime; unsecured.

8. LEASE COMMITMENTS

Lease commitments for the next two years are as follows:

2009	\$ 31 032
2010	<u>21 541</u>
	<u>\$ 52 573</u>

9. PENSION INFORMATION

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 defined. The plan has about 150 000 active members and approximately 541 000 retired members. Active members include approximately 32 000 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, 2006 indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the surplus to individual employers.

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT
OPERATING FUND STATEMENT OF FINANCIAL ACTIVITIES

	YEAR ENDED DECEMBER 31		SCHEDULE 1
	Unaudited Budget 2008	Actual 2008	Actual 2007
	\$	\$	\$
REVENUES			
Taxation	882 522	882 522	1 001 494
Grants in lieu	62 748	52 509	65 883
Sales, fees and other	1 402 097	1 261 672	1 192 704
Provincial and Federal grants	1 126 126	486 812	186 043
Municipal debt payments	<u>1 444 507</u>	<u>1 473 570</u>	<u>1 700 916</u>
	<u>4 918 000</u>	<u>4 157 085</u>	<u>4 147 040</u>
EXPENDITURES			
Administration	536 328	471 018	661 314
Electoral Areas	160 606	169 080	86 087
Municipal Debt Service	1 444 507	1 473 570	1 700 916
Planning	186 105	139 352	106 271
Industrial Development	42 899	195 155	16 467
Regional Waste Management	15 205	139	93
Helipad Construction	843	843	-
Mainland Recreation	3 500	3 704	10 000
Prince Rupert Regional Archives	74 801	74 801	74 760
North Pacific Cannery	88 551	88 551	92 500
Regional Recycling	575 704	575 240	478 857
Island Waste Management	885 031	1 028 579	889 345
QCI Recreation Commission	94 847	90 746	83 083
Haida Gwaii / QCI Museum	61 100	61 100	53 767
Vancouver Island Regional Library	34 695	34 695	31 089
Oona River Local Telephone Service	2 704	2 704	2 704
Sandspit Fire Protection	29 304	29 440	22 000
Sandspit Water Utility	54 210	56 352	49 172
Dodge Cove Water	<u>802 800</u>	<u>13 826</u>	<u>-</u>
	<u>5 093 740</u>	<u>4 508 895</u>	<u>4 358 425</u>
NET REVENUE (DEFICIT)	-175 740	-351 810	-211 385
TRANSFER FROM RESERVE FUNDS (SCHEDULE 5)	175 740	81 096	-
OPENING SURPLUS (DEFICIT)	<u>-</u>	<u>-138 466</u>	<u>72 919</u>
CLOSING SURPLUS (DEFICIT)	<u>-</u>	<u>-409 180</u>	<u>-138 466</u>

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT

STATEMENT OF SURPLUS

YEAR ENDED DECEMBER 31

SCHEDULE 2

	2007	2008	2007
		\$	\$
Administration	- 47640	31 977	31 648
Electoral Areas	- 2495	-7 779	8 706
Planning	11 407	-7 288	3 612
Industrial Development <i>Econ</i>	10 702	4 674	7 899
Regional Waste Management	14 826	15 467	15 605
Helipad Construction	-	-	843
Mainland Recreation	185	4 185	7 889
Prince Rupert Regional Archives	0	-191	-1 499
North Pacific Cannery	0	-2 980	1 551
Regional Recycling	11617	32119	58 101
Islands Waste Management	-460 723	-462 218	-267 851
QCI Recreation Commission	461	4 340	847
Haida Gwaii / QCI Museum	-1231	169	-33
Vancouver Island Regional Library	-1	145	987
Dodge Cove Water Utility	295	-200	-200
Oona River Local Telephone Service		-	100
Sandspit Fire Protection	116	-137	4 429
Sandspit Water Utility	- 39 795	-20 778	-11 100
		-409 180	-138 466

502 276

685

408 495

**SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT
STATEMENT OF CONTINUITY OF PHYSICAL ASSETS**

	YEAR ENDED DECEMBER 31	SCHEDULE 3
	2008	2007
	\$	\$
OPENING BALANCE (AT COST)	3 954 607	3 978 007
PURCHASES DURING THE YEAR	39 690	-
DISPOSALS DURING THE YEAR	<u>-</u>	<u>-23 400</u>
CLOSING BALANCE	<u>3 994 297</u>	<u>3 954 607</u>

REPRESENTED BY:

General	2 164 725	2 125 035
Sandspit Water Utility	<u>1 829 572</u>	<u>1 829 572</u>
	<u>3 994 297</u>	<u>3 954 607</u>

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT
STATEMENT OF CHANGES IN EQUITY IN PHYSICAL ASSETS

	YEAR ENDED DECEMBER 31	SCHEDULE 4
	2008	2007
	\$	\$
OPENING BALANCE	<u>3 493 193</u>	<u>3 484 346</u>
 INCREASE IN EQUITY		
Debt repayment	19 430	19 430
Actuarial additions	14 429	12 817
Physical asset purchases (disposals)	<u>39 690</u>	<u>-23 400</u>
	<u>73 549</u>	<u>8 847</u>
 CLOSING BALANCE	 <u>3 566 742</u>	 <u>3 493 193</u>

SKEENA-QUEEN CHARLOTTE REGIONAL DISTRICT

STATEMENT OF CHANGES IN RESERVE FUNDS

	YEAR ENDED DECEMBER 31	SCHEDULE 5
	2008	2007
	\$	\$
OPENING BALANCE	314 206	300 736
Interest	16 242	13 470
Transfer to operating fund (schedule 1)	<u>-81 096</u>	<u>-</u>
CLOSING BALANCE	<u>249 352</u>	<u>314 206</u>

REPRESENTED BY:

Waste Management	108 194	167 923
Dodge Cove Water Utility	112 742	119 474
Sandspit Water Utility	<u>28 416</u>	<u>26 809</u>
	<u>249 352</u>	<u>314 206</u>