

Cowichan Bay Waterworks District
Consolidated Financial Statements
December 31, 2017

Cowichan Bay Waterworks District Contents

For the year ended December 31, 2017

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Management's Responsibility

To the Board of Trustees of Cowichan Bay Waterworks District:

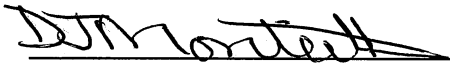
Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Trustees is composed entirely of Trustees who are neither management nor employees of the District. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to both the Board and management to discuss their audit findings.

March 29, 2018



Administrator

Independent Auditors' Report

To the Board of Trustees of Cowichan Bay Waterworks District:

We have audited the accompanying consolidated financial statements of Cowichan Bay Waterworks District, which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations and accumulated surplus, change in net financial assets, cash flows and related schedules 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.

Auditors' 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 auditors' 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 presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cowichan Bay Waterworks District as at December 31, 2017 and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Nanaimo, British Columbia

MNP LLP

March 29, 2018

Chartered Professional Accountants

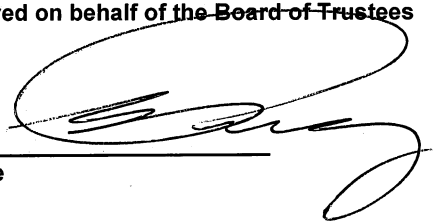
**Cowichan Bay Waterworks District
Consolidated Statement of Financial Position**

As at December 31, 2017


	2017	2016
<hr/>		
Financial Assets		
Cash and cash equivalents	287,518	169,439
Accounts receivable (Note 3)	97,269	91,207
Portfolio investments (Note 4)	1,052,953	1,033,255
	<hr/>	<hr/>
	1,437,740	1,293,901
<hr/>		
Financial Liabilities		
Accounts payable and accrued liabilities	43,847	30,036
Deferred revenue	11,418	5,283
	<hr/>	<hr/>
	55,265	35,319
<hr/>		
Net Financial Assets	1,382,475	1,258,582
<hr/>		
Non-Financial Assets		
Prepaid expenses	10,721	7,492
Inventory	15,256	15,711
Tangible capital assets (Note 5)(Schedule 1)	3,491,760	3,183,608
	<hr/>	<hr/>
	3,517,737	3,206,811
<hr/>		
Accumulated Surplus (Note 6)	4,900,212	4,465,393

Commitments (Note 7)

Approved on behalf of the Board of Trustees



Trustee



Trustee

The accompanying notes are an integral part of these consolidated financial statements

Cowichan Bay Waterworks District Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31, 2017

	2017 Budget (Note 10)	2017	2016
Revenues			
Parcel taxes	102,223	101,992	86,193
Sale of services	284,500	320,921	302,639
Investment income	4,350	15,157	8,550
Rent	6,900	6,900	5,175
Capital levy charges	-	8,000	24,000
Developer contributions	-	338,936	26,250
Other income	4,000	22,306	17,271
	401,973	814,212	470,078
Expenses			
Operating (Schedule 3)	244,650	232,667	239,433
Administration (Schedule 3)	150,862	146,726	137,272
	395,512	379,393	376,705
Annual surplus	6,461	434,819	93,373
Accumulated surplus - beginning of year	4,465,393	4,465,393	4,372,020
Accumulated surplus - end of year	4,471,854	4,900,212	4,465,393

The accompanying notes are an integral part of these consolidated financial statements

Cowichan Bay Waterworks District Consolidated Statement of Change in Net Financial Assets

For the year ended December 31, 2017

	2017 Budget (Note 10)	2017	2016
Annual surplus	6,461	434,819	93,373
Acquisition of tangible capital assets	-	(399,911)	(35,073)
Amortization	64,500	91,759	67,660
Decrease (increase) in inventory	-	454	(2,187)
(Increase) decrease in prepaid expenses	-	(3,229)	795
Change in net financial assets	70,961	123,892	124,568
Net financial assets, beginning of year	1,258,582	1,258,582	1,134,014
Net financial assets, end of year	1,329,543	1,382,474	1,258,582

The accompanying notes are an integral part of these consolidated financial statements

Cowichan Bay Waterworks District
Consolidated Statement of Cash Flows

For the year ended December 31, 2017

	2017	2016
<hr/>		
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus	434,819	93,373
Amortization	91,759	67,660
Contributed tangible capital assets	(327,388)	(26,500)
	<hr/> 199,190	<hr/> 134,533
Changes in working capital		
Accounts receivable	(6,062)	(4,744)
Prepaid expenses	(3,229)	795
Inventory	454	(2,187)
Accounts payable and accrued liabilities	13,811	19,872
Construction bonds held	-	(17,117)
Warranty bonds held	-	(30,000)
Deferred revenue	6,135	1,514
	<hr/> 210,299	<hr/> 237,199
Capital activities		
Acquisition of tangible capital assets	(72,523)	(8,573)
<hr/>		
Investing activities		
Investments in portfolio investments	(19,697)	(1,033,255)
<hr/>		
Decrease (increase) in cash resources	118,079	(804,629)
Cash resources, beginning of year	169,439	974,068
<hr/>		
Cash resources, end of year	287,518	169,439
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The accompanying notes are an integral part of these consolidated financial statements

Cowichan Bay Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

1. Incorporation and commencement of operations

The Cowichan Bay Waterworks District (the "District") was incorporated on August 12, 1946 under the Society Act of the Province of British Columbia, and operates under the Local Government Act of British Columbia. The principal activities of the District are to provide water service to the residents of Cowichan Bay and to maintain and repair all wells and water lines associated with that service. Under Section 149(1)(c) of the Income Tax Act, the District is exempt from taxation.

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with the recommendations of the Public Sector Accounting Board of CPA Canada. In accordance with these recommendations, the District has implemented the consolidation of all funds. The consolidated financial statements reflect the removal of internal transactions and balances.

Revenue recognition

Parcel taxes are recognized upon issuance of tax notices for the fiscal year. Sale of services revenue for water services are recognized on a quarterly basis once service has been provided. Interest and other income is recognized as revenue as earned on an accrual basis. Rent is recognized monthly in accordance with the lease agreements. Capital expenditure charge (CEC) fees are recorded as revenue when amounts are determinable and collectability is assured. Assets contributed by developers are recognized as revenue when ownership transfers to the District.

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

Cash and cash equivalents

Cash and cash equivalents include cash, money market investments and short-term deposits with maturities of one to three months.

Portfolio investments

The District has investments in term deposits that have a period to maturity of greater than three months at the time of acquisition. These investments are not quoted in an active market and are reported at amortized cost, and the associated transaction costs are added to the carrying value of these investments upon initial recognition.

Inventory

Inventory of supplies are recorded at the lower of cost and replacement cost. Cost is determined using the specific identification method.

Liability for contaminated sites

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the District is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available at December 31, 2017.

At each financial reporting date, the District reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The District continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made. As at December 31, 2017 the District has not recorded any liability for contaminated sites as no sites exist.

Cowichan Bay Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

2. Significant accounting policies (continued from previous page)

Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of tangible capital assets.

Liabilities for contaminated sites are estimated based on the best information available regarding potentially contaminated sites that the District is responsible for.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in surplus in the periods in which they become known.

Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

	Rate
Main facilities	5 to 60 years
Furniture and fixtures	10 years
Distribution network	50 to 80 years
Technology	5 years

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt. Assets under construction are not amortized until put into use. In the year of acquisition, amortization is taken at one half of its normal rate.

Fund accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the District, the accounts are maintained on a fund accounting basis. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the contributors or in accordance with the directives issued by the Board of Trustees.

Four funds are maintained: Operating Fund, Capital Fund, Renewal Reserve Fund and Capital Expense Charge Fund ("CEC").

The Operating Fund is used to account for all revenues and expenses related to general and ancillary operations of the District.

The Capital Fund is used to account for all tangible capital assets of the District and to present the flow of funds related to their acquisition and disposal, unexpended capital resources and debt commitments

Cowichan Bay Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

2. Significant accounting policies *(continued from previous page)*

The Renewal Reserve Fund consists of funds established by the Board of the District, by bylaw 240, to be used for expenditures related to the upgrading or addition of Waterworks tangible capital assets. These funds, and interest earned thereon, must only be invested and disbursed by bylaw passed by the Board of the District.

The Capital Expense Charge Fund consists of funds established by the Board of the District, by bylaw 226, to be used for expenditures related to the upgrading, replacement or renewal of existing tangible capital assets. The funds can only be expended with the Board's approval.

3. Accounts receivable

	<i>2017</i>	<i>2016</i>
Trade receivables	87,657	78,447
GST receivable	5,604	4,210
Interest receivable	4,008	8,550
	97,269	91,207

4. Portfolio investments

	<i>2017</i>	<i>2016</i>
18-month term deposit with average interest rate of 1.4%, due February 2019	357,566	349,669
18-month term deposit with average interest rate of 1.4%, due February 2019	238,862	233,587
18-month term deposit with 1.45% interest rate, due January 2018	456,525	450,000
	1,052,953	1,033,255

5. Tangible capital assets

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>2017 Net book value</i>	<i>2016 Net book value</i>
Construction in progress	37,741	-	37,741	40,983
Land	81,156	-	81,156	81,156
Main facilities	1,527,825	582,922	944,903	626,198
Furniture and fixtures	5,856	5,746	110	382
Distribution network	3,171,895	771,351	2,400,544	2,434,889
Technology	45,124	17,818	27,306	-
	4,869,597	1,377,837	3,491,760	3,183,608

See Schedule 1 for more information.

During 2017 the District acquired \$327,388 of contributed assets (2016 - \$26,500).

Cowichan Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

6. Accumulated surplus

The District segregates its accumulated surplus into the following categories:

	2017	2016
Fund balances		
Operating Fund	589,896	572,617
Capital Fund	3,491,760	3,183,608
Restricted Renewal Reserve Fund – Schedule 2	537,000	439,158
Restricted Capital Expense Charge Fund – Schedule 2	281,556	270,010
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Total fund balances	4,900,212	4,465,393

7. Commitments

The District has undertaken a capital project to make upgrades to the reservoir at Telegraph Road. To December 31, 2017, \$17,044 was spent on the project and recorded in construction in progress. The project is being funded out of the Renewal Reserve fund. The total project budget is \$75,000, therefore there is an estimated \$57,956 of anticipated costs to complete the project.

The District has undertaken a capital project to make upgrades to the water main for a section of Telegraph Road. To December 31, 2017, \$18,362 was spent on the project and recorded in construction in progress. The project is being funded out of the Renewal Reserve fund. The total project budget is \$150,000, therefore there is an estimated \$131,638 of anticipated costs to complete the project.

The District entered into a five-year operating lease in 2016 for a photocopier with minimum annual payments of \$509. The lease expires October 2021. The minimum lease payments for the next four years are as follows:

2018		509
2019		509
2020		509
2021		85
<hr/>		
Total		1,612

8. Financial instruments

The District, as part of its operations, carries a number of financial instruments. The District's financial instruments consist of cash and cash equivalents, accounts receivable, portfolio investments and accounts payable and accrued liabilities. It is management's opinion that the District is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Cowichan Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2017

9. Environmental liabilities

The District makes every reasonable effort to comply with all environmental regulations that apply to its operations. These regulations may require future expenditures to meet applicable standards. Amounts required to meet these obligations will be charged to operations or set aside as future reserves when they can be reasonably estimated.

10. Budget figures

Budget figures represent the budget adopted by the Board on October 20, 2016. The budgeted surplus as approved by the Board agrees to the surplus for the year as shown on the Consolidated Statement of Operations and Accumulated Surplus.

11. Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Cowichan Bay Waterworks District
Consolidated Schedule of Tangible Capital Assets

For the year ended December 31, 2017

Schedule 1

	Construction in progress	Land	Main facilities	Furniture and fixtures	Distribution network	Technology	2017	2016
Cost								
Balance, beginning of year	40,983	81,156	1,168,277	5,856	3,162,422	10,992	4,469,686	4,436,962
Add:								
Additions during the year	28,918	-	327,388	-	9,473	34,132	399,911	35,073
Less:								
Transfers during the year	(32,160)	-	32,160	-	-	-	-	(2,349)
Balance, end of year	37,741	81,156	1,527,825	5,856	3,171,895	45,124	4,869,597	4,469,686
Accumulated amortization								
Balance, beginning of year	-	-	542,080	5,474	727,532	10,992	1,286,078	1,220,766
Add:								
Amortization	-	-	40,842	272	43,819	6,826	91,759	67,661
Less:								
Accumulated amortization on disposals	-	-	-	-	-	-	-	(2,349)
Balance, end of year	-	-	582,922	5,746	771,351	17,818	1,377,837	1,286,078
Net book value of tangible capital assets	37,741	81,156	944,903	110	2,400,544	27,306	3,491,760	3,183,608

Cowichan Bay Waterworks District Consolidated Schedule of Reserve Funds

For the year ended December 31, 2017

Schedule 2

			Totals	
	Restricted CEC Reserve	Restricted Renewal Reserve	2017	2016
Balance, beginning of year	270,010	439,158	709,168	594,251
Transfer in	-	119,119	119,119	94,176
Capital levy charges	8,000	-	8,000	24,000
Interest income	3,546	5,307	8,853	5,564
Transfer out	-	(26,584)	(26,584)	(8,823)
Balance, end of year	281,556	537,000	818,556	709,168

Cowichan Bay Waterworks District
Consolidated Schedule of Operating and Administration Expenses
For the year ended December 31, 2017

Schedule 3

	2017 Budget (Note 10)	2017	2016
Operating expenses			
Amortization	64,500	91,759	67,660
Chlorination costs	4,000	3,677	2,992
Contractor costs	40,000	42,648	49,119
Engineering services	15,000	3,630	23,878
Labratory and testing services	4,500	-	560
Materials, rentals and subcontracts	49,200	21,327	20,117
Power charges	25,000	21,656	18,675
Repair and installation labour	23,100	22,402	18,812
Repairs and maintenance	11,500	17,432	30,174
Telephone monitoring and communication	3,250	3,520	3,373
Vehicle allowance	4,600	4,616	4,073
Total operating expenses	244,650	232,667	239,433
Administration expenses			
Audit and legal fees	12,060	9,403	9,340
Computer services	6,000	5,251	1,950
Insurance	15,000	14,639	14,380
Memberships, conventions and seminars	4,840	4,131	4,290
Miscellaneous	500	917	1,193
Postage and office supplies	11,110	11,176	9,075
Repairs and maintenance	1,360	696	1,054
Salaries, contracts and payroll costs	89,652	89,623	85,039
Trustees' remuneration	5,160	4,580	4,913
Utilities and telephone	3,920	4,676	4,409
Vehicle allowance	1,260	1,634	1,629
Total administration expenses	150,862	146,726	137,272