

Cowichan Bay Waterworks District
Consolidated Financial Statements
December 31, 2018

Cowichan Bay Waterworks District Contents

For the year ended December 31, 2018

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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.

April 3, 2019



Administrator

Independent Auditor's Report

To the Board of Trustees of Cowichan Bay Waterworks District:

Opinion

We have audited the consolidated financial statements of Cowichan Bay Waterworks District (the "District"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and accumulated surplus, including related schedules, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the District as at December 31, 2018, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the District in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the District's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the District's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Nanaimo, British Columbia

MNP LLP

April 3, 2019

Chartered Professional Accountants

Cowichan Bay Waterworks District Consolidated Statement of Financial Position

As at December 31, 2018


	2018	2017
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Financial Assets		
Cash and cash equivalents	322,035	287,518
Accounts receivable <i>(Note 3)</i>	114,500	97,269
Portfolio investments <i>(Note 4)</i>	1,061,978	1,052,953
	<hr/>	<hr/>
	1,498,513	1,437,740
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Financial Liabilities		
Accounts payable and accrued liabilities	28,411	43,847
Deferred revenue	36,080	11,418
	<hr/>	<hr/>
	64,491	55,265
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Net Financial Assets	1,434,022	1,382,475
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Non-Financial Assets		
Prepaid expenses	7,952	10,721
Inventory	13,506	15,256
Tangible capital assets <i>(Note 5) (Schedule 1)</i>	3,626,960	3,491,760
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	3,648,418	3,517,737
<hr/>		
Accumulated Surplus <i>(Note 6)</i>	5,082,440	4,900,212
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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, 2018

	2018 Budget (Note 10)	2018	2017
Revenues			
Sale of service	305,000	332,470	307,724
Parcel taxes	101,992	102,601	101,992
Capital expenditure charge	8,000	64,000	8,000
Developer contributions	-	52,392	338,936
Connection and service fees	6,500	19,750	19,458
Investment income	14,000	16,324	15,158
Other income	5,000	9,529	16,044
Rent	7,200	7,044	6,900
	447,692	604,110	814,212
Expenses			
Operating (Schedule 3)	270,600	254,720	232,667
Administration (Schedule 3)	170,495	167,162	146,726
	441,095	421,882	379,393
Annual surplus	6,597	182,228	434,819
Accumulated surplus - beginning of year	4,900,212	4,900,212	4,465,393
Accumulated surplus - end of year	4,906,809	5,082,440	4,900,212

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, 2018

	2018 Budget (Note 10)	2018	2017
Annual surplus	6,597	182,228	434,819
Acquisition of tangible capital assets	-	(228,585)	(399,911)
Amortization	70,000	93,385	91,759
Decrease in inventory	-	1,750	454
(Increase) decrease in prepaid expenses	-	2,769	(3,228)
Change in net financial assets	76,597	51,547	123,893
Net financial assets, beginning of year	1,382,475	1,382,475	1,258,582
Net financial assets, end of year	1,459,072	1,434,022	1,382,475

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, 2018

	2018	2017
<hr/>		
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus	182,228	434,819
Amortization	93,385	91,759
Contributed tangible capital assets	19,750	(327,388)
	295,363	199,190
Changes in working capital		
Accounts receivable	(17,231)	(6,062)
Prepaid expenses	2,769	(3,229)
Inventory	1,750	454
Accounts payable and accrued liabilities	(15,436)	13,811
Deferred revenue	24,662	6,135
	291,877	210,299
Capital activities		
Acquisition of tangible capital assets	(248,335)	(72,523)
Investing activities		
Investments in portfolio investments	(9,025)	(19,697)
Increase in cash resources	34,517	118,079
Cash resources, beginning of year	287,518	169,439
Cash resources, end of year	322,035	287,518

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, 2018

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

Sale of service revenue for water services are recognized on a quarterly basis once service has been provided. Parcel taxes are recognized upon issuance of tax notices for the fiscal year. Connection and service fees, interest and other income is recognized as revenue as earned on an accrual basis and collection is assured. 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, 2018.

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, 2018 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, 2018

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, 2018

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

Fund accounting *(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.

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions

Effective January 1, 2018, the District adopted the recommendations relating to PS 2200 *Related Party Disclosures* and PS 3420 *Inter-Entity Transactions*, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the changes were applied prospectively, and prior periods have not been restated.

These new Sections define a related party and establish disclosures required for related party transactions. Disclosure is required when related party transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, a material financial effect on the financial statements. They also establish standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

There was no material impact on the financial statements of adopting the new Sections.

PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights

Effective January 1, 2018, the District adopted the recommendations relating to PS 3210 *Assets*, PS 3320 *Contingent Assets*, and PS 3380 *Contractual Rights*, as set out in the CPA Canada Public Sector Accounting Handbook. Pursuant to the recommendations, the changes were applied prospectively, and prior periods have not been restated.

PS 3210 *Assets* provides additional guidance to clarify the definition of assets set out in PS 1000 *Financial Statement Concepts*.

PS 3320 *Contingent Assets* establishes disclosure standards on contingent assets.

PS 3380 *Contractual Rights* establishes disclosure standards on contractual rights, and does not include contractual rights to exchange assets where revenue does not arise. The main features of this Section are as follows:

- Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.
- Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.
- Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right.

There was no material impact on the financial statements of adopting the new Sections.

3. Accounts receivable

	2018	2017
Trade receivables	91,255	87,657
GST receivable	11,937	5,604
Interest receivable	11,308	4,008
	114,500	97,269

Cowichan Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

4. Portfolio investments

	2018	2017
18-month term deposit with average interest rate of 1.4%, due February 2019	360,976	357,566
18-month term deposit with average interest rate of 1.4%, due February 2019	241,140	238,862
18-month term deposit with 1.45% interest rate, due July 2019	459,862	456,525
	1,061,978	1,052,953

5. Tangible capital assets

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Construction in progress	259,467	-	37,741	37,741
Land	81,156	-	81,156	81,156
Main facilities	1,530,438	624,833	905,605	944,903
Furniture and fixtures	5,856	5,856	0	110
Distribution network	3,171,895	815,039	2,356,856	2,400,544
Technology	49,370	25,494	23,876	27,306
	5,098,182	1,471,222	3,626,960	3,491,760

See Schedule 1 for more information.

During 2018 the District acquired \$52,392 of contributed assets (2017 - \$327,388).

6. Accumulated surplus

The District segregates its accumulated surplus into the following categories:

	2018	2017
Fund balances		
Operating Fund	589,897	589,896
Capital Fund	3,626,960	3,491,760
Restricted Renewal Reserve Fund – Schedule 2	515,933	537,000
Restricted Capital Expense Charge Fund – Schedule 2	349,650	281,556
	5,082,440	4,900,212

Cowichan Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

7. Commitments

The District has undertaken a capital project to make upgrades to the reservoir at Telegraph Road. To December 31, 2018, \$61,344 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 \$13,656 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, 2018, \$143,395 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 \$6,605 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 three years are as follows:

2019	509
2020	509
2021	85
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Total	1,103

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.

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 December 21, 2017. 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, 2018

Schedule 1

	Construction in progress	Land	Main facilities	Furniture and fixtures	Distribution network	Technology	2018	2017
Cost								
Balance, beginning of year	37,741	81,156	1,527,825	5,856	3,171,895	45,124	4,869,597	4,469,686
Add:								
Additions during the year	221,726	-	2,613	-	-	4,246	228,585	399,911
Less:								
Transfers during the year	-	-	-	-	-	-	-	-
Balance, end of year	259,467	81,156	1,530,438	5,856	3,171,895	49,370	5,098,182	4,869,597
Accumulated amortization								
Balance, beginning of year	-	-	582,922	5,746	771,351	17,818	1,377,837	1,286,078
Add:								
Amortization	-	-	41,911	110	43,688	7,676	93,385	91,759
Less:								
Accumulated amortization on disposals	-	-	-	-	-	-	-	-
Balance, end of year	-	-	624,833	5,856	815,039	25,494	1,471,222	1,377,837
Net book value of tangible capital assets	259,467	81,156	905,605	-	2,356,856	23,876	3,626,960	3,491,760

Cowichan Bay Waterworks District Consolidated Schedule of Reserve Funds

For the year ended December 31, 2018

Schedule 2

			Totals	
	Restricted CEC Reserve	Restricted Renewal Reserve	2018	2017
Balance, beginning of year	281,556	537,000	818,556	709,168
Transfer in	-	142,136	142,136	119,119
Capital levy charges	64,000	-	64,000	8,000
Interest income	4,094	6,130	10,224	8,853
Transfer out	-	(169,333)	(169,333)	(26,584)
Balance, end of year	349,650	515,933	865,583	818,556

Cowichan Bay Waterworks District
Consolidated Schedule of Operating and Administration Expenses
For the year ended December 31, 2018

Schedule 3

	2018 <i>Budget</i> <i>(Note 10)</i>	2018	2017
Operating expenses			
Amortization	70,000	93,385	91,759
Chlorination costs	3,700	3,691	3,677
Contractor costs	50,000	57,278	42,648
Engineering services	25,000	10,041	3,630
Labratory and testing services	1,000	1,076	-
Materials, rentals and subcontracts	52,100	29,480	21,327
Power charges	25,000	21,899	21,656
Repair and installation labour	24,200	22,825	22,402
Repairs and maintenance	11,500	6,342	17,432
Telephone monitoring and communication	3,600	3,931	3,520
Vehicle allowance	4,500	4,772	4,616
Total operating expenses	270,600	254,720	232,667
Administration expenses			
Audit and legal fees	13,500	10,182	9,403
Computer services	10,000	10,183	5,251
Insurance	15,000	14,849	14,639
Memberships, conventions and seminars	6,540	4,705	4,131
Miscellaneous	500	1,967	917
Postage and office supplies	12,375	10,959	11,176
Repairs and maintenance	1,360	587	696
Salaries, contracts and payroll costs	100,000	101,799	89,623
Trustees' remuneration	5,300	5,620	4,580
Utilities and telephone	4,420	5,024	4,676
Vehicle allowance	1,500	1,287	1,634
Total administration expenses	170,495	167,162	146,726