

**KEMP LAKE
WATERWORKS DISTRICT
FINANCIAL STATEMENTS**
Years ended December 31, 2016 and 2015

KEMP LAKE WATERWORKS DISTRICT INDEX TO FINANCIAL STATEMENTS

Year ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To: The Members of Kemp Lake Waterworks District

We have audited the accompanying financial statements of Kemp Lake Waterworks District, which comprise the statement of financial position as at December 31, 2016, and the statements of operations and accumulated surplus, changes in net financial liabilities, and 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 public sector accounting standards, 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 management'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 management'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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kemp Lake Waterworks District as at December 31, 2016, and the results of its operations, changes in net financial liabilities and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Victoria, British Columbia
April 26, 2017

Hutchesson & Co LLP
Chartered Professional Accountants

KEMP LAKE WATERWORKS DISTRICT STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2016

	2016 Total	2015 Total
Financial assets		
Cash and cash equivalents (Note 3)	\$ 293,361	\$ 248,746
Short term investments (Note 4)	59,241	58,741
Accounts receivable (Note 5)	86,798	67,751
	439,400	375,238
Liabilities		
Accounts payable and accrued liabilities	10,248	11,138
Deferred designated revenue (Note 6)	449,186	421,250
	459,434	432,388
Net financial liabilities	(20,034)	(57,150)
Non-financial assets		
Tangible capital assets (Note 7)	1,127,212	1,169,484
Prepaid expenses	5,592	5,318
Non-financial assets	1,132,804	1,174,802
Accumulated surplus	\$ 1,112,770	\$ 1,117,652

See accompanying notes to financial statements.

APPROVED BY THE TRUSTEES

_____ Trustee

_____ Trustee

HUTCHESON & CO.

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended December 31, 2016

	Budget 2016	Actual 2016	Actual 2015
	(Unaudited - note 2(g))		
Revenue:			
Taxes	\$ 47,750	\$ 48,340	\$ 47,715
Tolls	108,000	106,476	98,630
Interest and penalty charges	7,500	8,606	7,434
Interest earned	-	15	20
Amortization of deferred designated revenue	-	7,751	7,751
	163,250	171,188	161,550
Expenses:			
Administration (Schedule A)	48,000	50,285	50,984
Operating (Schedule B)	123,185	125,785	127,104
	171,185	176,070	178,088
Annual deficiency	(7,935)	(4,882)	(16,538)
Accumulated surplus, beginning of year		1,117,652	1,134,190
Accumulated surplus, end of year		\$ 1,112,770	\$ 1,117,652

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT
STATEMENT OF CHANGES IN NET FINANCIAL LIABILITIES

For the year ended December 31, 2016

	2016 Total	2015 Total
Annual deficiency	\$ (4,882)	\$ (16,538)
Acquisition of tangible capital assets	(2,901)	(31,051)
Amortization (depreciation) of tangible capital assets	45,172	44,395
	42,271	13,344
Acquisition of prepaid expense	(9,261)	(9,118)
Use of prepaid expense	8,988	9,332
	(273)	214
Increase (decrease) in net financial assets	37,116	(2,980)
Net financial liabilities, beginning of year	(57,150)	(54,170)
Net financial liabilities, end of year	\$ (20,034)	\$ (57,150)

See accompanying notes to financial statements.

**KEMP LAKE WATERWORKS DISTRICT
CASH FLOW STATEMENT**

Year ended December 31	2016	2015
Operating activities		
Annual deficiency	\$ (4,882)	\$ (16,538)
Deferred designated revenue received for future periods	35,687	39,477
Items not affecting cash		
Amortization expense	45,172	44,395
Amortization of deferred designated revenue	(7,751)	(7,751)
	68,226	59,583
Change in non-cash working capital items		
Accounts receivable	(19,047)	18,611
Prepaid expenses	(273)	214
Accounts payable and accrued liabilities	(890)	8
	48,016	78,416
Investing activity		
Acquisition of tangible capital assets	(2,901)	(31,051)
Financing activity		
Purchase of short term investments	(500)	(697)
Increase in cash	44,615	46,668
Cash, beginning of year	248,746	202,078
Cash, end of year	\$ 293,361	\$ 248,746

See accompanying notes

KEMP LAKE WATERWORKS DISTRICT NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

1. NATURE OF OPERATIONS

Kemp Lake Waterworks District (the District) was established on May 26, 1953 by Letters Patent under the Water Act of British Columbia. Currently, the purpose of the District is to provide water services to residents of the District. It also has the authority to assess and collect property taxes and water tolls for the District.

The District operates on a not-for-profit basis under the jurisdiction of the B.C. Ministry of Community Development.

The District is exempt from income taxes under the Income Tax Act.

2. ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

(b) Cash and cash equivalents

Cash and cash equivalents consist of liquid instruments, such as cash on hand, bank accounts, and guaranteed investment certificates, which have maturities of three months or less.

(c) Financial instruments

The District's financial instruments consist of cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities. These financial instruments are measured at cost. Short term investments consist of liquid instruments, such as guaranteed investment certificates which have maturities of twelve months or less.

Transaction costs related to the acquisition of these financial instruments are expensed.

KEMP LAKE WATERWORKS DISTRICT NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

2. ACCOUNTING POLICIES, continued

(d) Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization and are classified according to their functional use. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is recorded on a straight-line basis over the estimated useful life of the asset commencing the year the asset is put into service. The estimated useful lives are as follows:

Buildings	30 to 40 years
Reservoirs	40 to 50 years
Machinery & equipment	5 to 20 years
Water distribution systems	20 to 50 years
Computer equipment & software	2 to 5 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the District's ability to provide goods and services, or when the value of the future economic benefits associated with the tangible capital assets are less than their book value.

(e) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, and related disclosures at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Key areas where management has made estimates and assumptions include those related to accounts receivable and the useful life of tangible capital assets. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known. By their nature, these estimates are subject to measurement uncertainty.

KEMP LAKE WATERWORKS DISTRICT NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

2. ACCOUNTING POLICIES, continued

(f) Revenue recognition

The District recognizes revenue for tolls, taxes, connection fees, renewal reserve fees and subdivision fees in accordance with its bylaws (as approved by the Ministry of Community Development) as follows:

- a. Tolls are recognized as water is used by the residents of the District. Water meters are read quarterly and the residents are billed for this usage.
- b. Taxes are assessed in the middle of each year based on the classification of each parcel within the District. The taxes are for the calendar year.
- c. Renewal reserve fees are assessed quarterly based on the classification of each parcel.
- d. Connection fees are recognized when the District has completed connecting the District's water line to a private parcel.
- e. Subdivision fees are recognized when the District approves each subdivision plan. Developers are required to pay subdivision fees before subdivision takes place.

Unrestricted grants and revenues are recorded as revenue when received or receivable, if the amounts can be estimated and collection is reasonably assured.

Restricted grants and revenues are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

Contributions for the purpose of acquiring or developing a depreciable tangible capital asset are recorded as deferred designated revenue and are recognized in revenue at the rate that amortization for the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

(g) Budget figures

Annual budget figures are determined by the District's Trustees based on the expected revenues.

Budget figures have not been audited, and are presented for comparative and information purposes only.

KEMP LAKE WATERWORKS DISTRICT NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	2016	2015
Restricted cash - Renewal reserve and CEC fund	\$ 248,008	\$ 212,820
General operating fund	45,353	35,926
	\$ 293,361	\$ 248,746

The District has the following funds: General Operating, Miscellaneous Reserve, and Renewal Reserve and Capital Expenditure Charge (CEC).

The General Operating fund accounts for the organization's program delivery and administrative activities. This fund reports unrestricted resources and unrestricted operating grants. The Miscellaneous Reserve Fund is a contingency fund for unplanned expenses or special projects not relating to the above funds. The Renewal Reserve and CEC Fund is restricted to fund repairs and improvements to the District's waterworks systems and equipment.

4. SHORT TERM INVESTMENTS

Short term investments are comprised of the following:

	2016	2015
Restricted - Renewal reserve and CEC fund	\$ 26,064	\$ 25,843
Miscellaneous reserve fund	33,177	32,898
	\$ 59,241	\$ 58,741

**KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2016

5. ACCOUNTS RECEIVABLE

	2016	2015
Taxes	\$ 14,308	\$ 10,586
Tolls	62,678	51,547
GST	9,812	5,618
	\$ 86,798	\$ 67,751

In 2016, the GST receivable includes amounts filed for 2015 and 2016.

6. DEFERRED DESIGNATED REVENUE

Renewal reserve and capital expenditure charges collected are restricted by the Ministry of Community Development to fund future waterworks systems and equipment upgrading, replacement and purchases. Interest earned on these amounts is also restricted for the same purpose.

	2016	2015
Deferred revenue for designated purposes, beginning of year	\$ 421,250	\$ 389,524
Less amount recognized as revenue in the year	(7,751)	(7,751)
Add amount received for future periods	35,687	39,477
	\$ 449,186	\$ 421,250

These funds have been set aside, as restricted cash (see Note 3) and restricted short term investments (see Note 4), and may only be disbursed by a resolution of the Board of Trustees of the District. The Ministry of Community Development (the Ministry) provides final verification that these funds are used as originally intended.

In fiscal 2015, the Ministry, through Bylaw #184, appropriated \$10,000 from the Capital Works Renewal Reserve Fund to be expended on upgrading main pumps and manifolds at the Chubb Road Pumphouse. No payments from this appropriation were made during 2015 and 2016.

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

7. TANGIBLE CAPITAL ASSETS
December 31, 2016

	Land	Buildings	Computer and Software	Machinery and Equipment	Reservoirs	Water Distribution System	2016 Total
Cost							
Opening Balance	\$ 93,990	\$ 19,280	\$ 5,781	\$ 110,574	\$ 382,925	\$ 1,452,942	\$ 2,065,492
Additions	-	-	-	-	-	2,901	2,901
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing balance	93,990	19,280	5,781	110,574	382,925	1,455,843	2,068,393
Accumulated amortization							
Opening Balance	-	9,281	5,781	62,342	127,651	690,954	896,008
Amortization	-	377	-	6,155	8,402	30,238	45,172
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	-	9,658	5,781	68,497	136,053	721,192	941,181
Net book value	\$ 93,990	\$ 9,622	\$ -	\$ 42,077	\$ 246,873	\$ 734,651	\$ 1,127,212

Amortization and depreciation can be used synonymously throughout the financial statements.

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

7. TANGIBLE CAPITAL ASSETS (continued)
 December 31, 2015

	Land	Buildings	Computer and Software	Machinery and Equipment	Reservoirs	Water Distribution System	2015 Total
Cost							
Opening Balance	\$ 93,990	\$ 19,280	\$ 5,781	\$ 79,523	\$ 382,925	\$ 1,452,942	\$ 2,034,441
Additions	-	-	-	31,051	-	-	31,051
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing balance	93,990	19,280	5,781	110,574	382,925	1,452,942	2,065,492
Accumulated amortization							
Opening Balance	-	8,904	5,781	57,739	119,249	659,940	851,613
Amortization	-	377	-	4,603	8,402	31,014	44,395
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	-	9,281	5,781	62,342	127,651	690,954	896,008
Net book value	\$ 93,990	\$ 9,999	\$ -	\$ 48,233	\$ 255,275	\$ 761,988	\$ 1,169,484

Amortization and depreciation can be used synonymously throughout the financial statements.

KEMP LAKE WATERWORKS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

8. FINANCIAL RISK MANAGEMENT

The Board of Trustees ensures that the District has identified its major risks and ensures that management monitors and controls them.

(a) Interest rate risk

The District is not exposed to significant interest rate risk relating to its financial assets and liabilities.

(b) Liquidity risk

Liquidity risk is the risk that the District will encounter difficulty in meeting obligations associated with financial liabilities. It is measured by reviewing the District's future net cash flows for the possibility of a negative net cash flow. The District manages the liquidity risk resulting from its accounts payable obligations by maintaining significant cash resources and investing in liquid investments.

(c) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short maturity term of these instruments.

9. WATER TREATMENT

During 2012, the Vancouver Island Health Authority (VIHA) asked the District to upgrade its water source to meet the 4-3-2-1 Water Plan. The District will connect to the Capital Regional District (CRD) water line and has been in discussions with the CRD and VIHA during 2016.

**KEMP LAKE WATERWORKS DISTRICT
SCHEDULES OF ADMINISTRATIVE AND
OPERATING EXPENDITURES**

Year ended December 31,

2016

2015

Schedule A

Administration expenditures

Bank charges	\$ 145	\$ 484
Fees and licences	1,847	1,846
Miscellaneous	3,794	657
Office expenses and supplies	2,908	2,346
Postage	1,197	1,176
Professional fees	7,800	10,725
Rent	1,620	1,620
Secretary/accounting	16,800	16,800
Training	3,780	3,502
Trustees honoraria	<u>10,394</u>	<u>11,828</u>
	<u>\$ 50,285</u>	<u>\$ 50,984</u>

Schedule B

Operating expenditures

Amortization	\$ 45,172	\$ 44,395
Contract labour – sublet/maintenance	24,650	28,118
Engineering costs	-	2,935
Insurance	8,988	9,331
Lab testing	1,272	381
Supplies and labour	33,638	30,386
Telephone and utilities	11,572	11,023
Workers' compensation	<u>493</u>	<u>535</u>
	<u>\$ 125,785</u>	<u>\$ 127,104</u>

**KEMP LAKE WATERWORKS DISTRICT
SCHEDULES TO THE FINANCIAL INFORMATION ACT**

Unaudited
December 31, 2016

The following schedules have been prepared by management of the Kemp Lake Waterworks District in compliance with the requirements of the Financial Information Act, Regulation, and Directive.

These schedules have been reviewed and approved by the Board of Trustees.

1. SCHEDULE OF GUARANTEE AND INDEMNITY AGREEMENTS

None.

2. SCHEDULE OF REMUNERATION TO EMPLOYEES

	<u>2016</u>	<u>2015</u>
Assessor/Collector - D. Anderson	\$ 18,420	\$ 18,420
Trustee Honoraria - \$2,511 each to J. Hemphill and R. Birch (\$2,511 each in 2015); \$4,560 to K. Brehart (\$4,560 in 2015) and CPP deductions of \$812 (\$949 in 2015)	<u>10,394</u>	<u>11,828</u>
	<u>\$ 28,814</u>	<u>\$ 30,248</u>

3. SCHEDULE OF EXPENSES PAID ON BEHALF OF EMPLOYEES

Expenses include costs for business travel and professional development.

	<u>2016</u>	<u>2015</u>
K. Brehart	\$ 1,991	\$ -
J. Hemphill	635	-
R. Birch	963	-
D. Anderson	<u>1,650</u>	<u>150</u>
	<u>\$ 5,239</u>	<u>\$ 150</u>

**KEMP LAKE WATERWORKS DISTRICT
SCHEDULES TO THE FINANCIAL INFORMATION ACT**

Unaudited
December 31, 2016

4. SCHEDULE OF PAYMENTS FOR GOODS AND SERVICES

	<u>2016</u>	<u>2015</u>
a) Amounts exceeding \$10,000, in aggregate, to any one supplier:		
Van Isle Water Services Ltd.	\$ 10,991	\$ 12,554
R.E. Anderson	29,859	31,112
b) Consolidated total for all other suppliers	55,995	59,629
c) Remuneration to employees (Schedule 2)	28,814	30,248
d) Expenses paid on behalf of employees (Schedule 3)	<u>5,239</u>	<u>150</u>
Total expenses per Schedule A and Schedule B (less amortization)	\$ <u>130,898</u>	\$ <u>133,693</u>

Approved: _____

HUTCHESON & CO.