

Qualicum Bay Horne Lake Waterworks District
Consolidated Financial Statements
December 31, 2018

Qualicum Bay Horne Lake Waterworks District

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For the year ended December 31, 2018

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Management's Responsibility

To the Board of Trustees of Qualicum Bay Horne Lake 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 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 17, 2019


Administrator

Independent Auditor's Report

To the Board of Trustees of Qualicum Bay Horne Lake Waterworks District:

Opinion

We have audited the consolidated financial statements of Qualicum Bay Horne Lake 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 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 Consolidated 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 Consolidated 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 Consolidated 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

April 17, 2019

MNP LLP


Chartered Professional Accountants

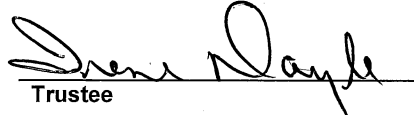
Qualicum Bay Horne Lake Waterworks District
Consolidated Statement of Financial Position

As at December 31, 2018

	2018	2017 <i>(Restated - Note 7)</i>
Financial assets		
Cash	470,774	219,077
Temporary investments	182,124	180,467
Accounts receivable <i>(Note 3)</i>	61,646	61,851
	714,544	461,395
Financial liabilities		
Accounts payable and accrued liabilities <i>(Note 4)</i>	14,780	13,163
Deferred revenue	8,073	5,726
	22,853	18,889
Net financial assets	691,691	442,506
Non-financial assets		
Prepaid expenses	9,629	6,491
Inventory	2,234	4,159
Tangible capital assets <i>(Schedule 1)</i>	1,598,546	1,644,945
	1,610,409	1,655,595
Commitment <i>(Note 5)</i>		
Accumulated surplus <i>(Schedule 2)</i>	2,302,100	2,098,101

Approved on behalf of the Board of Trustees


 Trustee


 Trustee

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

Qualicum Bay Horne Lake Waterworks District

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31, 2018

	<i>Budget 2018 (Note 9)</i>	2018	<i>2017 (Restated - Note 7)</i>
Revenues			
Sale of services	109,100	218,677	193,834
Parcel taxes	194,609	185,995	109,143
Capital levy charges	-	13,352	177
Other income	5,300	15,230	15,983
Investment income	800	2,476	1,906
	309,809	435,730	321,043
Expenses			
Amortization	-	58,331	58,318
Contractor	35,000	33,723	33,062
Insurance	12,000	10,533	10,784
Office	5,600	9,859	10,499
Professional fees	20,000	23,983	24,433
Repairs and maintenance	28,500	6,687	13,543
Travel and training	2,000	1,990	1,313
Utilities	9,500	9,192	11,285
Wages and benefits	79,750	77,433	75,975
	192,350	231,731	239,212
Annual surplus	117,459	203,999	81,831
Accumulated surplus, beginning of year	2,098,101	2,098,101	2,016,270
Accumulated surplus, end of year	2,215,560	2,302,100	2,098,101

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

Qualicum Bay Horne Lake Waterworks District

Consolidated Statement of Change in Net Financial Assets

For the year ended December 31, 2018

	<i>Budget 2018 (Note 9)</i>	2018	<i>2017 (Restated - Note 7)</i>
Annual surplus	117,459	203,999	81,831
Acquisition of tangible capital assets	(22,000)	(11,932)	(17,555)
Change in prepaid expenses	-	(3,138)	-
Change in inventory	-	1,925	4,811
Amortization	-	58,331	58,318
Change in net financial assets	95,459	249,185	127,405
Net financial assets, beginning of year	442,506	442,506	315,101
Net financial assets, end of year	537,965	691,691	442,506

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

Qualicum Bay Horne Lake Waterworks District

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	2018	2017 <i>(Restated - Note 7)</i>
<hr/>		
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus	203,999	81,831
Amortization	58,331	58,318
	<hr/>	<hr/>
	262,330	140,149
	<hr/>	<hr/>
Changes in non-cash operating balance		
Temporary investments	(1,657)	(1,668)
Accounts receivable	205	16,921
Accounts payable and accrued liabilities	1,617	(59,324)
Prepaid expenses	(3,138)	-
Inventory	1,925	4,811
Deferred revenue	2,347	(2,948)
	<hr/>	<hr/>
	1,299	(42,208)
	<hr/>	<hr/>
Net cash provided by operating activities	263,629	97,941
	<hr/>	<hr/>
Capital activities		
Cash used to acquire tangible capital assets	(11,932)	(17,555)
	<hr/>	<hr/>
Increase in cash resources	251,697	80,386
Cash resources, beginning of year	219,077	138,691
	<hr/>	<hr/>
Cash resources, end of year	470,774	219,077
	<hr/>	<hr/>

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

Qualicum Bay Horne Lake Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

1. Incorporation and commencement of operations

The Qualicum Bay Horne Lake Waterworks District (the "District") was incorporated on August 27, 1968 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 supply to the residents of the Qualicum Bay Horne Lake Waterworks District.

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 when services have been provided. Investment and other income are recognized as revenue is earned on an accrual basis. Capital expenditure charge (CEC) fees are recorded as revenue when amounts are determinable, and collection is reasonably assured.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of less than three months.

Inventory

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

Temporary investments

Temporary investments consist of various term deposits with maturities of more than three months up to one year and are valued at cost.

Measurement uncertainty (use of estimates)

The preparation of 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 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 (deficit) in the periods in which they become known.

Qualicum Bay Horne Lake Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

2. Significant accounting policies (continued from previous page)

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 commencing when the asset is put into use as follows:

	Rate
Maintenance equipment	10 years
Waterworks system	20 to 60 years
Office equipment	5 to 10 years
Computer software	5 years
Buildings	20 to 40 years

In the year of acquisition, amortization is taken at one-half of the normal rate. Tangible capital assets received as contributions are recorded at their fair value at the date of receipt.

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, Restricted Capital Fund and Restricted Renewal Fund.

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.

The Restricted Reserve Fund - Capital and Restricted Reserve Fund - Renewal consist of funds established by the Trustees of the District, by bylaw, to be used for expenditures related to the upgrading, replacement or renewal of existing waterworks tangible capital assets. These funds, and interest earned thereon, must only be invested and disbursed by the motion passed by the Trustees of the District.

Segment information

Expenses are not disclosed by segment as there is only one function – water services.

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.

Qualicum Bay Horne Lake Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

2. Significant accounting policies (continued from previous page)

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 receivable	98,859	52,424
Goods and services tax receivable	-	7,532
Accrued interest receivable	1,895	1,895
Allowance for doubtful accounts	(39,108)	-
	61,646	61,851

4. Accounts payable and accrued liabilities

Trade payable	14,084	13,163
Goods and services tax payable	696	-
	14,780	13,163

Qualicum Bay Horne Lake Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

5. Commitment

In December 2018 the District entered into a commitment to obtain assistance with the implementation of iCity software at a cost of \$19,380 and a three-year licensing agreement for the software at a cost of \$8,000 per year effective one year from January 1, 2019. As at December 31, 2018 no costs had been incurred for the iCity software.

6. Financial instruments

The District, as part of its operations, carries a number of financial instruments. The District's financial instruments consist of cash and temporary investments, accounts receivable 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.

7. Correction of an error

During the year an error was discovered in the calculation of the amortization expense of the Waterworks System. The retroactive application of the correction of this error had a material impact on the results of the operations and financial position of the District. The following accounts were impacted:

	2017 balance, as previously stated	Adjustment	2017 balance, restated
Accumulated surplus, beginning of year	1,972,710	43,560	2,016,270
Amortization	146,971	(88,653)	58,318
Accumulated amortization	839,735	(132,210)	707,525
Equity in tangible capital assets	1,512,735	132,210	1,644,945

8. 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.

9. Budget information

Budget figures represents the budget adopted by the Trustees on January 17, 2018. The District budgets for operating activities and capital activities separately. The following schedule reconciles the consolidated surplus as presented in the budgets as approved by the Trustees to the consolidated surplus as shown on the consolidated statement of operations.

Annual surplus, as per Statement of Operations	117,549
Contingency	(10,000)
<u>Acquisition of tangible capital assets</u>	<u>(22,000)</u>
<u>Budgeted surplus as approved by the Trustees</u>	<u>85,459</u>

10. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Qualicum Bay Horne Lake Waterworks District
Consolidated Schedule of Tangible Capital Assets

As at December 31, 2018

Schedule 1

	Capital					Totals	
	Maintenance equipment	Waterworks system	Office equipment	Computer software	Buildings	2018	2017 <i>(Restated - Note 7)</i>
Cost							
Balance, beginning of year	8,183	2,215,166	24,471	19,742	90,014	2,357,576	2,334,915
Add:							
Acquisitions during the year	-	11,932	-	-	-	11,932	17,555
Less:							
Disposals during the year	-	-	-	-	-	-	-
Balance, end of year	8,183	2,227,098	24,471	19,742	90,014	2,369,508	2,352,470
Accumulated amortization							
Balance, beginning of year	7,945	626,107	23,571	12,975	42,033	712,631	649,207
Add:							
Amortization	48	52,443	501	2,943	2,396	58,331	58,318
Less:							
Accumulated amortization on disposals	-	-	-	-	-	-	-
Balance, end of year	7,993	678,550	24,072	15,918	44,429	770,962	707,525
Net book value of tangible capital assets	190	1,548,548	399	3,824	45,585	1,598,546	1,644,945

Qualicum Bay Horne Lake Waterworks District
Consolidated Schedule of Fund Balances
For the year ended December 31, 2018

Schedule 2

	Operating	Capital	Restricted Reserve Fund - Capital	Restricted Reserve Fund - Renewal	Totals	
					2018	2017 <i>(Restated - Note 7)</i>
Balance, beginning of year	(281,915)	1,644,945	468,668	266,403	2,098,101	2,016,270
Income	420,289	-	14,860	581	435,730	321,043
Expenses	(160,442)	(58,331)	(12,958)	-	(231,731)	(239,212)
Transfer of parcel taxes	(185,995)	-	-	185,995	-	-
Transfer relating to acquisition of tangible capital assets	(11,932)	11,932	-	-	-	-
Balance, end of year	(219,995)	1,598,546	470,570	452,979	2,302,100	2,098,101