

**KEMP LAKE
WATERWORKS DISTRICT
FINANCIAL STATEMENTS
Years ended December 31, 2013 and 2012**

**KEMP LAKE
WATERWORKS DISTRICT
FINANCIAL STATEMENTS
December 31, 2013**

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INDEPENDENT AUDITOR'S REPORT

**To the Members of:
Kemp Lake Waterworks District**

Report on Financial Statements

We have audited the accompanying financial statements of Kemp Lake Waterworks District, which comprise the statement of financial position as at December 31, 2013, and the statement of operations and accumulated surplus and changes in net financial assets 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 entity'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 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 financial statements.

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

HUTCHESON -CHARTERED ACCOUNTANTS LLP- & Co.

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TONY THEAKER, CPA, CA

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Kemp Lake Waterworks District as at December 31, 2013 and the results of its operations and changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Accountants LLP

Victoria, BC
April 28, 2014

KEMP LAKE WATERWORKS DISTRICT STATEMENT OF FINANCIAL POSITION

December 31, 2013, with comparative figures as at December 31, 2012

		December 31, 2013	December 31, 2012
Financial assets			
Cash and cash equivalents	(Note 3)	\$ 168,092	\$ 133,247
Short term investments	(Note 4)	57,356	68,676
Accounts receivable	(Note 5)	64,468	66,066
		289,916	267,989
Liabilities			
Accounts payable and accrued liabilities		7,000	9,094
Deferred revenue	(Note 6)	-	12,000
Deferred designated revenue	(Note 7)	359,371	334,523
		366,371	355,617
Net financial assets		(76,455)	(87,628)
Non-financial assets			
Tangible capital assets	(Note 8)	1,226,694	1,268,424
Prepaid expenses		5,598	5,614
Non-financial assets		1,232,292	1,274,038
Accumulated surplus		\$ 1,155,837	\$ 1,186,410

See accompanying notes to financial statements.

APPROVED BY THE TRUSTEES

_____ Trustee

_____ Trustee

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

Year ended December 31, 2013, with comparative figures for 2012

	Budget 2013	Actual 2013	Actual 2012
	(Unaudited - note 2(g))		
Revenue:			
Taxes	\$ 38,000	\$ 40,325	\$ 37,305
Tolls	94,000	85,082	85,820
Grants	-	11,500	-
Connection fees	-	600	-
Interest and penalty charges	4,000	6,386	4,327
Interest earned	-	83	666
Amortization of deferred designated revenue	-	7,751	7,751
	136,000	151,727	135,869
Other:			
Contributed tangible capital asset	-	-	12,671
	136,000	151,727	148,540
Expenses:			
Administration (Schedule A)	45,650	47,345	46,840
Operating (Schedule B)	131,600	134,955	131,807
	177,250	182,300	178,647
Annual surplus (deficiency)	(41,250)	(30,573)	(30,107)
Accumulated surplus, beginning of year	1,186,410	1,186,410	1,216,517
Accumulated surplus, end of year	\$ 1,145,160	\$ 1,155,837	\$ 1,186,410

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
	Total	Total
Annual surplus	\$ (30,573)	\$ (30,107)
(Acquisition) of tangible capital assets	(2,259)	(25,342)
Amortization (Depreciation) of tangible capital assets	43,989	44,309
	41,730	18,967
Acquisition of prepaid expense	(9,596)	(9,501)
Use of prepaid expense	9,612	9,441
	16	(60)
Increase in net financial assets	11,173	(11,200)
Net financial assets, beginning of year	(87,628)	(76,428)
Net financial assets, end of year	\$ (76,455)	\$ (87,628)

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Cash flow derived from (applied to):		
Operating:		
Sources of cash:		
Taxes	\$ 41,285	\$ 35,095
Tolls	92,083	77,896
Renewal reserve and CEC charges	30,480	42,270
Grants	11,500	-
Connection fees	600	-
Interest and penalty charges	6,386	4,327
Interest	2,203	2,289
Uses of cash:		
Administration	(47,346)	(46,840)
Operating	(100,087)	(91,841)
Refund of boundary application deposit	(12,000)	-
Net change in cash from operating activities	25,104	23,196
Capital activities:		
Cash used to acquire tangible capital assets	(2,259)	(12,671)
Net change in cash from capital activities	(2,259)	(12,671)
Investing activities:		
Redemption of short-term investments	12,000	11,853
Net change in cash from investing activities	12,000	11,853
Net change in cash and cash equivalents	34,845	22,378
Cash and cash equivalents, beginning of year	133,247	110,869
Cash and cash equivalents, end of year	\$ 168,092	\$ 133,247

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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 BC Ministry of Community Development.

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

2. ACCOUNTING POLICIES

a) Basis of accounting

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 (GIC) 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, 2013

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. 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) Revenue recognition

The District recognizes revenue on 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.

KEMP LAKE WATERWORKS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

f) 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.

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.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	<u>2013</u>		<u>2012</u>
Restricted cash -- Renewal reserve & CEC fund	\$ 136,808	\$	132,028
General operating fund	31,284		1,219
	<u>\$ 168,092</u>	\$	<u>133,247</u>

The District has the following funds: General Operating, Investment in Waterworks and Equipment, 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.

KEMP LAKE WATERWORKS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

4. SHORT TERM INVESTMENTS

Short term investments are comprised of the following:

	<u>2013</u>		<u>2012</u>
Restricted – Renewal reserve & CEC fund	\$ 25,234	\$	24,935
General operating fund	-		12,000
Miscellaneous reserve fund	<u>32,122</u>		<u>31,741</u>
	<u>\$ 57,356</u>	<u>\$</u>	<u>68,676</u>

5. ACCOUNTS RECEIVABLE

	<u>2013</u>		<u>2012</u>
Taxes	\$ 7,365	\$	8,326
Tolls	40,941		47,221
HST/GST	<u>16,162</u>		<u>10,519</u>
	<u>\$ 64,648</u>	<u>\$</u>	<u>66,066</u>

The HST/GST receivable includes amounts due for 2011, 2012 and 2013.

6. DEFERRED REVENUE

During 2010, the District received a \$12,000 membership application fee and invested it in a term deposit. This amount is recorded as deferred revenue since the Capital Regional District has not yet approved the proposed development project. If the proposed development project is not approved, the application fee is fully refundable.

During 2013, the membership application was withdrawn and the \$12,000 application fee was refunded.

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

7. 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. 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 provides final verification that these funds are used as originally intended.

	<u>2013</u>		<u>2012</u>
Deferred revenue for designated purposes, beginning of year	\$ 334,523	\$	298,381
Less amount recognized as revenue in the year	(7,751)		(7,751)
Add amount received for future periods	<u>32,600</u>		<u>43,893</u>
Deferred revenue for designated purposes, end of year	<u>\$ 359,371</u>	\$	<u>334,523</u>

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

8. TANGIBLE CAPITAL ASSETS
December 31, 2013

	Land	Buildings	Computer Equipment and Software	Machinery and Equipment	Reservoirs	Water Distribution System	2013 Total
Cost							
Opening Balance	\$ 93,990	\$ 19,280	\$ 5,781	\$ 77,264	\$ 382,925	\$ 1,452,942	\$ 2,032,182
Additions	-	-	-	2,259	-	-	2,259
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing balance	93,990	19,280	5,781	79,523	382,925	1,452,942	2,034,441
Accumulated amortization							
Opening Balance	-	8,088	5,780	51,751	102,447	595,692	763,758
Amortization	-	439	1	2,937	8,401	32,211	43,989
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	-	8,527	5,781	54,688	110,848	627,903	807,747
Net book value	\$ 93,990	\$ 10,753	\$ -	\$ 24,835	\$ 272,077	\$ 825,039	\$ 1,226,694

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

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

8. TANGIBLE CAPITAL ASSETS
December 31, 2012

Cost	Land	Buildings	Computer and Software	Machinery and Equipment	Reservoirs	Water Distribution System	2012 Total
Opening Balance	\$ 93,990	\$ 19,280	\$ 5,781	\$ 77,264	\$ 382,925	\$ 1,427,600	\$ 2,006,840
Additions	-	-	-	-	-	25,342	25,342
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing balance	93,990	19,280	5,781	77,264	382,925	1,452,942	2,032,182
Accumulated amortization							
Opening Balance	-	7,588	5,405	48,677	94,045	563,734	719,449
Amortization	-	500	375	3,074	8,402	31,958	44,309
Disposals	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-
Closing Balance	-	8,088	5,780	51,751	102,447	595,692	763,758
Net book value	\$ 93,990	\$ 11,192	\$ 1	\$ 25,513	\$ 280,478	\$ 857,250	\$ 1,268,424

The addition to the water distribution system includes amounts contributed by developers. Amortization and depreciation can be used synonymously throughout the financial statements.

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

9. 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.

10. WATER TREATMENT

During 2012, the Vancouver Island Health Authority asked the District to upgrade its water source to meet the 4-3-2-1 Water Plan. The District plans to move ahead with this in the immediate future. The cost and funding for this upgrade continue to be studied at this time.

KEMP LAKE WATERWORKS DISTRICT SCHEDULES OF ADMINISTRATIVE AND OPERATING EXPENDITURES

Unaudited
December 31, 2013

	2013	2012
		Schedule A
Administration expenditures		
Bad debts expense	\$ 166	\$ -
Bank charges	126	283
Fees and licences	2,276	1,548
Miscellaneous	786	2,997
Office expenses and supplies	3,355	2,612
Postage	915	874
Professional fees	7,925	9,174
Rent	1,440	1,440
Secretary/accounting	16,980	16,200
Training	6,300	5,582
Trustees honoraria	<u>7,074</u>	<u>6,427</u>
	\$ <u>47,345</u>	\$ <u>46,840</u>

		Schedule B
Operating expenditures		
Amortization	\$ 43,989	\$ 44,309
Contract labour – sublet/maintenance	32,526	23,730
Engineering costs	6,330	11,003
Insurance	9,612	9,564
Lab testing	526	678
Supplies and labour	31,498	33,830
Utilities	10,016	8,307
Workers' compensation	<u>458</u>	<u>356</u>
	\$ <u>134,955</u>	\$ <u>131,807</u>

KEMP LAKE WATERWORKS DISTRICT SCHEDULES TO THE FINANCIAL INFORMATION ACT

Unaudited
December 31, 2013

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>2013</u>	<u>2012</u>
Assessor/Collector - D. Anderson	\$ 18,420	\$ 17,640
Trustee Honoraria - \$1,737 each to J. Hemphill and R. Birch (\$1,579 each in 2012); \$3,600 to K. Brehart (\$3,269 in 2012)	<u>7,074</u>	<u>6,427</u>
	\$ <u>25,494</u>	\$ <u>24,067</u>

3. SCHEDULE OF EXPENSES PAID ON BEHALF OF EMPLOYEES

None.

KEMP LAKE WATERWORKS DISTRICT
SCHEDULES TO THE FINANCIAL INFORMATION ACT

Unaudited
December 31, 2013

4. SCHEDULE OF PAYMENTS FOR GOODS AND SERVICES

	<u>2013</u>	<u>2012</u>
a) Amounts exceeding \$10,000, in aggregate, to any one supplier:		
Jarvis Seabrook	\$ -	\$ 10,718
Genivar Engineering	6,330	11,004
RE Anderson	31,740	18,379
b) Consolidated total for all other suppliers	74,747	70,170
c) Remuneration to employees (Schedule 2)	<u>25,494</u>	<u>24,067</u>
Total expenses per Schedule A and Schedule B (less amortization)	\$ <u>138,311</u>	\$ <u>134,338</u>
Amounts exceeding \$10,000, in aggregate, to any one supplier for capitalized goods		
Anton Rabian	\$ <u>-</u>	\$ <u>12,671</u>

Approved: _____