

**KEMP LAKE
WATERWORKS DISTRICT
FINANCIAL STATEMENTS**
Years ended December 31, 2014 and 2013

KEMP LAKE WATERWORKS DISTRICT INDEX TO FINANCIAL STATEMENTS

Year ended December 31, 2014

| | Page |
|---|---------|
| INDEPENDENT AUDITOR'S REPORT | |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position | 1 |
| Statement of Operations and Accumulated Surplus | 2 |
| Statement of Changes in Net Financial Assets | 3 |
| Statement of Cash Flows | 4 |
| Notes to the Financial Statements | 5 - 12 |
| Schedule of Administrative and Operating Expenditures (Unaudited) | 13 |
| Schedules to the Financial Information Act (Unaudited) | 14 - 15 |

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, 2014, and the statements 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 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, 2014, and the results of its operations and changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Victoria, British Columbia
April 29, 2015

Chartered Accountants

KEMP LAKE WATERWORKS DISTRICT STATEMENT OF FINANCIAL POSITION

December 31, 2014, with comparative figures as at December 31, 2013

| | 2014 | 2013 |
|--|---------------------|---------------------|
| | Total | Total |
| Financial assets | | |
| Cash and cash equivalents (Note 3) | \$ 202,078 | \$ 168,092 |
| Short term investments (Note 4) | 58,044 | 57,356 |
| Accounts receivable (Note 5) | 86,362 | 64,468 |
| | 346,484 | 289,916 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 11,130 | 7,000 |
| Deferred designated revenue (Note 6) | 389,524 | 359,371 |
| | 400,654 | 366,371 |
| Net financial assets | (54,170) | (76,455) |
| Non-financial assets | | |
| Tangible capital assets (Note 7) | 1,182,828 | 1,226,694 |
| Prepaid expenses | 5,532 | 5,598 |
| Non-financial assets | 1,188,360 | 1,232,292 |
| Accumulated surplus | \$ 1,134,190 | \$ 1,155,837 |

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, 2014, with comparative figures for 2013

| | Budget 2014 | Actual 2014 | Actual 2013 |
|---|----------------------------|----------------|----------------|
| | (Unaudited - note 2(g)) | | |
| Revenue: | | | |
| Taxes | \$ 42,915 | \$ 45,289 | \$ 40,325 |
| Tolls | 99,000 | 100,285 | 85,082 |
| Grants | - | - | 11,500 |
| Connection fees | - | - | 600 |
| Interest and penalty charges | 6,500 | 7,068 | 6,386 |
| Interest earned | - | 19 | 83 |
| Amortization of deferred designated revenue | - | 7,751 | 7,751 |
| Surplus carryforward from 2013 | 30,000 | - | - |
| | 178,415 | 160,412 | 151,727 |
| Expenses: | | | |
| Administration (Schedule A) | 51,660 | 45,044 | 47,345 |
| Operating (Schedule B) | 126,755 | 137,015 | 134,955 |
| | 178,415 | 182,059 | 182,300 |
| Annual surplus (deficiency) | - | (21,647) | (30,573) |
| Accumulated surplus, beginning of year | 1,155,837 | 1,155,837 | 1,186,410 |
| Accumulated surplus, end of year | \$ 1,155,837 | \$ 1,134,190 | \$ 1,155,837 |

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended December 31, 2014, with comparative figures for 2013

| | 2014 | 2013 |
|--|--------------------|--------------------|
| | Total | Total |
| Annual surplus (deficiency) | \$ (21,647) | \$ (30,573) |
| (Acquisition) of tangible capital assets | - | (2,259) |
| Amortization (depreciation) of tangible capital assets | 43,866 | 43,989 |
| | 43,866 | 41,730 |
| Acquisition of prepaid expense | (9,483) | (9,596) |
| Use of prepaid expense | 9,549 | 9,612 |
| | 66 | 16 |
| Increase in net financial assets | 22,285 | 11,173 |
| Net financial assets, beginning of year | (76,455) | (87,628) |
| Net financial assets, end of year | \$ (54,170) | \$ (76,455) |

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2014, with comparative figures for 2013

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Cash flow derived from (applied to): | | |
| Operating: | | |
| Sources of cash: | | |
| Taxes | \$ 41,642 | \$ 41,285 |
| Tolls | 87,324 | 92,083 |
| Renewal reserve and CEC charges | 35,705 | 30,480 |
| Grants | - | 11,500 |
| Connection fees | - | 600 |
| Interest and penalty charges | 7,069 | 6,386 |
| Interest | 2,219 | 2,203 |
| Uses of cash: | | |
| Administration | (45,044) | (47,346) |
| Operating | (94,929) | (100,087) |
| Refund of boundary application deposit | - | (12,000) |
| Net change in cash from operating activities | 33,986 | 25,104 |
| Capital activities: | | |
| Cash used to acquire tangible capital assets | - | (2,259) |
| Net change in cash from capital activities | - | (2,259) |
| Investing activities: | | |
| Redemption of short-term investments | - | 12,000 |
| Net change in cash from investing activities | - | 12,000 |
| Net change in cash and cash equivalents | 33,986 | 34,845 |
| Cash and cash equivalents, beginning of year | 168,092 | 133,247 |
| Cash and cash equivalents, end of year | \$ 202,078 | \$ 168,092 |

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 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 (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, 2014

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. 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, 2014

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, 2014

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Restricted cash - Renewal reserve and CEC fund | \$ 174,039 | \$ 136,808 |
| General operating fund | 28,039 | 31,284 |
| | \$ 202,078 | \$ 168,092 |

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.

4. SHORT TERM INVESTMENTS

Short term investments are comprised of the following:

| | 2014 | 2013 |
|---|------------------|------------------|
| Restricted - Renewal reserve & CEC fund | \$ 25,537 | \$ 25,234 |
| Miscellaneous reserve fund | 32,507 | 32,122 |
| | \$ 58,044 | \$ 57,356 |

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

December 31, 2014

5. ACCOUNTS RECEIVABLE

| | 2014 | 2013 |
|---------|------------------|------------------|
| Taxes | \$ 11,012 | \$ 7,365 |
| Tolls | 53,903 | 40,941 |
| HST/GST | 21,447 | 16,162 |
| | \$ 86,362 | \$ 64,468 |

The HST/GST receivable includes amounts filed for 2011, 2012, 2013 and 2014.

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.

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Deferred revenue for designated purposes, beginning of year | \$ 359,371 | \$ 334,522 |
| Less amount recognized as revenue in the year | (7,751) | (7,751) |
| Add amount received for future periods | 37,904 | 32,600 |
| | \$ 389,524 | \$ 359,371 |

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.

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

7. TANGIBLE CAPITAL ASSETS
December 31, 2014

| | Land | Buildings | Computer Equipment and Software | Machinery and Equipment | Reservoirs | Water Distribution System | 2014 Total |
|---------------------------------|-----------|-----------|---------------------------------------|-------------------------------|------------|---------------------------------|---------------|
| Cost | | | | | | | |
| Opening Balance | \$ 93,990 | \$ 19,280 | \$ 5,781 | \$ 79,523 | \$ 382,925 | \$ 1,452,942 | \$ 2,034,441 |
| Additions | - | - | - | - | - | - | - |
| 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 | - | 8,527 | 5,781 | 54,688 | 110,848 | 627,903 | 807,747 |
| Amortization | - | 377 | - | 3,051 | 8,401 | 32,037 | 43,866 |
| Disposals | - | - | - | - | - | - | - |
| Write-downs | - | - | - | - | - | - | - |
| Closing Balance | - | 8,904 | 5,781 | 57,739 | 119,249 | 659,940 | 851,613 |
| Net book value | \$ 93,990 | \$ 10,376 | \$ - | \$ 21,784 | \$ 263,676 | \$ 793,002 | \$ 1,182,828 |

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

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

7. 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, 2014

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 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

Year ended December 31,

| | 2014 | 2013 |
|------------------------------------|-------------------------|-------------------------|
| | | Schedule A |
| Administration expenditures | | |
| Bad debts expense | \$ - | \$ 166 |
| Bank charges | 127 | 126 |
| Fees and licences | 1,966 | 2,276 |
| Miscellaneous | 1,116 | 786 |
| Office expenses and supplies | 2,535 | 3,355 |
| Postage | 1,135 | 915 |
| Professional fees | 7,075 | 7,925 |
| Rent | 1,560 | 1,440 |
| Secretary/accounting | 16,900 | 16,980 |
| Training | 4,848 | 6,300 |
| Trustees honoraria | <u>7,782</u> | <u>7,074</u> |
| | \$ <u>45,044</u> | \$ <u>47,345</u> |

| | | |
|--------------------------------------|--------------------------|--------------------------|
| | | Schedule B |
| Operating expenditures | | |
| Amortization | \$ 43,866 | \$ 43,989 |
| Contract labour – sublet/maintenance | 28,118 | 32,526 |
| Engineering costs | 4,506 | 6,330 |
| Insurance | 9,549 | 9,612 |
| Lab testing | 1,117 | 526 |
| Supplies and labour | 38,297 | 31,498 |
| Utilities | 11,108 | 10,016 |
| Workers' compensation | <u>454</u> | <u>456</u> |
| | \$ <u>137,015</u> | \$ <u>134,955</u> |

KEMP LAKE WATERWORKS DISTRICT
SCHEDULES TO THE FINANCIAL INFORMATION ACT

Unaudited
December 31, 2014

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>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| Assessor/Collector - D. Anderson | \$ 18,460 | \$ 18,420 |
| Trustee Honoraria - \$1,911 each to J. Hemphill and R. Birch (\$1,737 each in 2013); \$3,960 to K. Brehart (\$3,600 in 2013) | <u>7,782</u> | <u>7,074</u> |
| | <u>\$ 26,242</u> | <u>\$ 25,494</u> |

3. SCHEDULE OF EXPENSES PAID ON BEHALF OF EMPLOYEES

None.

KEMP LAKE WATERWORKS DISTRICT
SCHEDULES TO THE FINANCIAL INFORMATION ACT

Unaudited
December 31, 2014

4. SCHEDULE OF PAYMENTS FOR GOODS AND SERVICES

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| a) Amounts exceeding \$10,000, in aggregate, to any one supplier: | | |
| Van Isle Water Services Ltd. | \$ 11,349 | \$ 7,084 |
| R.E. Anderson | 30,929 | 31,740 |
| b) Consolidated total for all other suppliers | 69,673 | 74,747 |
| c) Remuneration to employees (Schedule 2) | <u>26,242</u> | <u>25,494</u> |
| Total expenses per Schedule A and Schedule B (less amortization) | \$ <u>138,193</u> | \$ <u>138,311</u> |

Approved: _____