

**KEMP LAKE
WATERWORKS DISTRICT
FINANCIAL STATEMENTS
Years ended December 31, 2015 and 2014**

KEMP LAKE WATERWORKS DISTRICT INDEX TO FINANCIAL STATEMENTS

Year ended December 31, 2015

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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, 2015, 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, 2015, 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 27, 2016

Hutcheson & Co LLP
Chartered Professional Accountants

KEMP LAKE WATERWORKS DISTRICT STATEMENT OF FINANCIAL POSITION

December 31, 2015, with comparative figures as at December 31, 2014

		2015 Total		2014 Total
Financial assets				
Cash and cash equivalents	(Note 3)	\$ 248,746	\$	202,078
Short term investments	(Note 4)	58,741		58,044
Accounts receivable	(Note 5)	67,751		86,362
		375,238		346,484
Liabilities				
Accounts payable and accrued liabilities		11,138		11,130
Deferred designated revenue	(Note 6)	421,250		389,524
		432,388		400,654
Net financial liabilities		(57,150)		(54,170)
Non-financial assets				
Tangible capital assets	(Note 7)	1,169,484		1,182,828
Prepaid expenses		5,318		5,532
Non-financial assets		1,174,802		1,188,360
Accumulated surplus		\$ 1,117,652	\$	1,134,190

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, 2015, with comparative figures for 2014

	Budget 2015	Actual 2015	Actual 2014
	(Unaudited - note 2(g))		
Revenue:			
Taxes	\$ 47,590	\$ 47,715	\$ 45,289
Tolls	108,000	98,630	100,285
Interest and penalty charges	7,750	7,434	7,068
Interest earned	-	20	19
Amortization of deferred designated revenue	-	7,751	7,751
	163,340	161,550	160,412
Expenses:			
Administration (Schedule A)	43,445	50,984	45,044
Operating (Schedule B)	104,300	127,104	137,015
	147,745	178,088	182,059
Annual surplus (deficiency)	15,595	(16,538)	(21,647)
Accumulated surplus, beginning of year		1,134,190	1,155,837
Accumulated surplus, end of year		\$ 1,117,652	\$ 1,134,190

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended December 31, 2015, with comparative figures for 2014

	2015	2014
	Total	Total
Annual deficiency	\$ (16,538)	\$ (21,647)
Acquisition of tangible capital assets	(31,051)	-
Amortization (depreciation) of tangible capital assets	44,395	43,866
	13,344	43,866
Acquisition of prepaid expense	(9,118)	(9,483)
Use of prepaid expense	9,332	9,549
	214	66
Increase (decrease) in net financial assets	(2,980)	22,285
Net financial assets, beginning of year	(54,170)	(76,455)
Net financial assets, end of year	\$ (57,150)	\$ (54,170)

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT STATEMENT OF CASH FLOWS

Year ended December 31, 2015, with comparative figures for 2014

	2015	2014
Cash flow derived from (applied to):		
Operating:		
Sources of cash:		
Taxes	\$ 48,142	\$ 41,642
Tolls	100,986	87,324
Renewal reserve and CEC charges	37,390	35,705
Connection fees	4,000	-
Interest and penalty charges	7,434	7,069
Interest (investment)	2,107	2,219
Uses of cash:		
Administration	(50,984)	(45,044)
Operating	(67,356)	(94,929)
Refund of connection fees	(4,000)	-
Net change in cash from operating activities	77,719	33,986
Capital activities:		
Cash used to acquire tangible capital assets	(31,051)	-
Net change in cash from capital activities	(31,051)	-
Net change in cash and cash equivalents	46,668	33,986
Cash and cash equivalents, beginning of year	202,078	168,092
Cash and cash equivalents, end of year	\$ 248,746	\$ 202,078

See accompanying notes to financial statements.

KEMP LAKE WATERWORKS DISTRICT NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

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, 2015

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, 2015

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, 2015

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	2015	2014
Restricted cash - Renewal reserve and CEC fund	\$ 212,820	\$ 174,039
General operating fund	35,926	28,039
	\$ 248,746	\$ 202,078

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:

	2015	2014
Restricted - Renewal reserve and CEC fund	\$ 25,843	\$ 25,537
Miscellaneous reserve fund	32,898	32,507
	\$ 58,741	\$ 58,044

KEMP LAKE WATERWORKS DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

5. ACCOUNTS RECEIVABLE

	2015	2014
Taxes	\$ 10,586	\$ 11,012
Tolls	51,547	53,903
HST/GST	5,618	21,447
	\$ 67,751	\$ 86,362

In 2014, 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.

	2015	2014
Deferred revenue for designated purposes, beginning of year	\$ 389,524	\$ 359,371
Less amount recognized as revenue in the year	(7,751)	(7,751)
Add amount received for future periods	39,477	37,904
	\$ 421,250	\$ 389,524

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 Pumpouse. No payments from this appropriation were made during 2015.

KEMP LAKE WATERWORKS DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

7. TANGIBLE CAPITAL ASSETS
December 31, 2015

	Land	Buildings	Computer Equipment 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, 2015

7. TANGIBLE CAPITAL ASSETS (continued)
 December 31, 2014

	Land	Buildings	Computer 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, 2015

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,

2015

2014

Schedule A

Administration expenditures

Bank charges	\$	484	\$	127
Fees and licences		1,846		1,966
Miscellaneous		657		1,116
Office expenses and supplies		2,346		2,535
Postage		1,176		1,135
Professional fees		10,725		7,075
Rent		1,620		1,560
Secretary/accounting		16,800		16,900
Training		3,502		4,848
Trustees honoraria		<u>11,828</u>		<u>7,782</u>
	\$	<u>50,984</u>	\$	<u>45,044</u>

Schedule B

Operating expenditures

Amortization	\$	44,395	\$	43,866
Contract labour – sublet/maintenance		28,118		28,118
Engineering costs		2,935		4,506
Insurance		9,331		9,549
Lab testing		381		1,117
Supplies and labour		30,386		38,297
Utilities		11,023		11,108
Workers' compensation		<u>535</u>		<u>454</u>
	\$	<u>127,104</u>	\$	<u>137,015</u>

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

Unaudited
December 31, 2015

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>2015</u>	<u>2014</u>
Assessor/Collector - D. Anderson	\$ 18,420	\$ 18,460
Trustee Honoraria - \$2,511 each to J. Hemphill and R. Birch (\$1,911 each in 2014); \$4,560 to K. Brehart (\$3,960 in 2014) and CPP deductions of \$2,246 for 2013-2015	<u>11,828</u>	<u>7,782</u>
	<u>\$ 30,248</u>	<u>\$ 26,242</u>

3. SCHEDULE OF EXPENSES PAID ON BEHALF OF EMPLOYEES

None.

KEMP LAKE WATERWORKS DISTRICT
SCHEDULES TO THE FINANCIAL INFORMATION ACT

Unaudited
December 31, 2015

4. SCHEDULE OF PAYMENTS FOR GOODS AND SERVICES

	<u>2015</u>	<u>2014</u>
a) Amounts exceeding \$10,000, in aggregate, to any one supplier:		
Van Isle Water Services Ltd.	\$ 12,554	\$ 11,349
R.E. Anderson	31,112	30,929
b) Consolidated total for all other suppliers	59,779	69,673
c) Remuneration to employees (Schedule 2)	<u>30,248</u>	<u>26,242</u>
Total expenses per Schedule A and Schedule B (less amortization)	\$ <u>133,693</u>	\$ <u>138,193</u>

Approved: _____