

**KEREMEOS
IRRIGATION DISTRICT**

Financial Statements

Year Ended December 31, 2018

KEREMEOS IRRIGATION DISTRICT

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Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of Keremeos Irrigation District

Report on the Financial Statements

Opinion

We have audited the financial statements of Keremeos Irrigation District (the District), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated surplus, changes in net financial debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as at December 31, 2018, and the results of its operations and its 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 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The current year's supplementary information included in Schedule 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the District's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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.

Omland Heal LLP

Chartered Professional Accountants

Penticton, BC
April 24, 2019

KEREMEOS IRRIGATION DISTRICT

Statement of Financial Position

December 31, 2018

	2018	2017
Financial assets		
Cash and investments <i>(Note 3)</i>	\$ 529,085	\$ 503,816
Accounts receivable <i>(Note 4)</i>	37,222	61,318
	566,307	565,134
Liabilities		
Accounts payable and accrued liabilities <i>(Note 5)</i>	91,193	38,226
Deferred income	5,066	3,961
Long term debt <i>(Note 6)</i>	771,234	808,119
	867,493	850,306
Net financial debt	(301,186)	(285,172)
Non-financial assets		
Tangible capital assets <i>(Schedule 2)</i>	2,432,579	2,246,297
Supply inventory	20,252	19,421
Prepaid expenses	19,334	18,429
	2,472,165	2,284,147
Accumulated surplus	\$ 2,170,979	\$ 1,998,975

Commitments *(Note 7)*

On behalf of District

_____ Trustee

_____ Trustee

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Statement of Operations and Accumulated Surplus

Year Ended December 31, 2018

	Budget (Unaudited) 2018	2018	2017
Revenues			
Domestic water	\$ 299,397	\$ 301,132	\$ 292,809
Irrigation taxes	261,101	261,024	255,355
Contributed tangible capital assets	-	113,402	-
Capital levies	-	30,700	16,378
Percentage addition	-	7,163	6,656
Connection fees and upgrades	-	6,910	1,340
Sundry and expense recoveries	-	6,053	1,880
Interest	-	1,031	2,316
Interest and penalties on taxes	1,000	542	1,382
Grant revenue	-	-	78,000
	561,498	727,957	656,116
Expenses			
Operating expenses (Schedule 1)	448,080	448,101	428,150
Administrative expenses (Schedule 1)	217,714	107,852	105,677
	665,794	555,953	533,827
Annual surplus (deficit)	(104,296)	172,004	122,289
Accumulated surplus - beginning of year	1,998,975	1,998,975	1,876,686
Accumulated surplus - end of year	\$ 1,894,679	\$ 2,170,979	\$ 1,998,975

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Statement of Changes in Net Financial Debt

Year Ended December 31, 2018

	Budget (Unaudited) 2018	2018	2017
Annual surplus (deficit)	\$ (104,296)	\$ 172,004	\$ 122,289
Amortization of tangible capital assets	-	90,835	88,973
Purchase of tangible capital assets	-	(277,117)	(138,721)
	(104,296)	(14,278)	72,541
Acquisition of prepaid expenses	-	(19,334)	(18,429)
Use of prepaid expenses	-	18,429	17,960
Acquisition of supply inventory	-	(831)	(804)
	-	(1,736)	(1,273)
Increase (decrease) in net financial assets	(104,296)	(16,014)	71,268
Net financial debt - beginning of year	(285,172)	(285,172)	(356,440)
Net financial debt - end of year	\$ (389,468)	\$ (301,186)	\$ (285,172)

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Statement of Cash Flows

Year Ended December 31, 2018

	2018	2017
Operating activities		
Annual surplus	\$ 172,004	\$ 122,289
Item not affecting cash:		
Amortization of tangible capital assets	90,835	88,973
	262,839	211,262
Changes in non-cash working capital:		
Accounts receivable	24,096	(16,586)
Supply inventory	(831)	(804)
Accounts payable and accrued liabilities	52,967	19,799
Deferred income	1,105	202
Prepaid expenses	(905)	(469)
	76,432	2,142
Net change in cash from operating activities	339,271	213,404
Capital activity		
Purchase of tangible capital assets	(277,117)	(138,721)
Cash flow used by capital activity	(277,117)	(138,721)
Financing activity		
Repayment of long term debt	(36,885)	(37,870)
Cash flow used by financing activity	(36,885)	(37,870)
Increase in cash flow	25,269	36,813
Cash and investments - beginning of year	503,816	467,003
Cash and investments - end of year	\$ 529,085	\$ 503,816

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2018

1. Purpose of the District

Keremeos Irrigation District (the "District") operates and maintains a water system and provides water services to property owners in Keremeos, British Columbia. It is defined as an improvement district under the Municipal Act of British Columbia. The District is exempt from income tax under Section 149(1)(c) of the Income Tax Act.

2. Significant accounting policies

The financial statements were prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board (PSAB) and, in management's opinion, with consideration of materiality and within the framework of the following accounting policies:

Fund accounting

The District follows the fund method of accounting for revenues and expenses with the resources and operations of the District segregated into funds. The Operating Fund, Contingency Reserve Fund, Capital Expenditure Fund, and Capital Asset Fund are used for accounting and financial reporting purposes. Revenue and expenses related to water supply and maintenance are reported in the Operating Fund. Interest earned on investments are reported in the applicable fund in which the cash is held. The Capital Asset Fund reports revenues and expenses related to the District's tangible capital assets.

Cash and investments

Investments are term deposits with maturity dates of 18 months or less. Because of the short term maturity of these investments, the carrying amount approximates fair value.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Revenue recognition

Domestic water taxes are recorded on an accrual basis and recognized when the service or product is provided by the District. Other revenue is recorded as it is earned and measurable. Accounts that have been received in advance of services being rendered are recorded as deferred revenues until the District discharges the obligation that led to the collection of funds.

Reserve funds

The Capital Reserve Fund is established under bylaw, pursuant to Section 698 and 706 of the Local Government Act, for the upgrading, replacement or renewal of existing capital works. The funds set aside, and interest earned on the funds, are deposited in a separate account at a financial institution. Disbursements can only be made from the account after a bylaw is passed by the trustees of the irrigation district.

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KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements
Year Ended December 31, 2018

2. Significant accounting policies (continued)

Use of estimates

Certain amounts in the financial statements are subject to measurement uncertainty and are based on the District's best information and judgement. Actual results could differ from these estimates.

Examples of significant estimates include:

- providing for amortization of tangible capital assets;
- the estimated useful lives of tangible capital assets;
- the allowance for doubtful accounts;
- the allowance for inventory obsolescence.

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization and are amortized over their estimated useful lives on a declining balance basis at the following rates and methods:

Land and right of ways		N/A
Patrol truck and backhoe	15 & 20 years	straight-line method
Control systems and electrical	10 & 20 years	straight-line method
Tools and equipment	10 years	straight-line method
Hydrants, buildings and pumphouses	40 - 50 years	straight-line method
Pumps, water distribution systems, watermains and wells	30 - 75 years	straight-line method
Paving and fencing	20 years	straight-line method
Reservoir	80 years	straight-line method

The District regularly reviews its tangible capital assets to eliminate obsolete items.

Tangible capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Impairment of tangible capital assets

The District tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the tangible capital assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent the carrying value exceeds its fair value.

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KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2018

2. Significant accounting policies (continued)

Government transfers

Government transfers are the transfer of assets from senior levels of government and are not the result of any exchange transactions, meaning there is no expectation to repay the amounts in the future. Government transfers are recognized in the fiscal year in which events giving rise to the transfer occur, providing the transfer is authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

The District recognized a transfer of a tangible capital assets from The Village of Keremeos in connection with the Sparks Drive Supply Main project in the amount of \$113,402. This amount is the portion of the project that the District did not pay for but acquired under the letter of understanding with The Village of Keremeos outlining the District's ownership of the project's infrastructure at 50%.

3. Cash and investments

	2018	2017
Cash	\$ 129,085	\$ 503,816
Term deposits - Operating Fund	200,000	-
Term deposits - Capital Reserve Fund	200,000	-
	\$ 529,085	\$ 503,816

In 2018, cash includes \$32,985 (2017 - \$51,907) internally restricted for use in the Capital Expenditure Fund and \$100,088 (2017 - \$354,748) internally restricted for use in the Capital Reserve Fund.

The Operating Fund term deposits consist of two GIC's with Valley Fist Credit Union ("VFCU"), are cashable and mature August 27, 2019 at 1.7%.

The Capital Reserve Fund term deposits consist of two GIC's with VFCU, are cashable and mature February, 2020 at 1.85%. Their use is internally restricted for use in the Capital Reserve Fund.

4. Accounts receivable

	2018	2017
Trade receivables	\$ 23,263	\$ 43,092
Accrued interest receivable	603	8
Goods and service tax rebate	13,356	18,218
	\$ 37,222	\$ 61,318

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2018

5. Accounts payable and accrued liabilities

	2018	2017
Trade payables	\$ 74,126	\$ 22,745
Accrued liabilities	5,775	5,505
Payroll liabilities	4,651	5,916
Banked hours payable	4,440	1,864
Accrued interest	2,201	2,196
	<u>\$ 91,193</u>	<u>\$ 38,226</u>

6. Long term debt

	2018	2017
CIBC loan bearing interest at 3.261% per annum, repayable in monthly blended payments of \$3,942. The loan matures on April 30, 2022 and is secured by all present and after acquired personal property.	\$ 572,533	\$ 600,664
CIBC loan bearing interest at prime (currently 3.95%) per annum, repayable in monthly blended payments of \$1,332. The loan matures on August 31, 2034 and is secured by all present and after acquired personal property.	198,701	207,455
	771,234	808,119
Amounts payable within one year	(37,346)	(40,219)
	<u>\$ 733,888</u>	<u>\$ 767,900</u>

Principal repayment terms are approximately:

2019	\$ 37,346
2020	38,642
2021	39,982
2022	41,369
2023	42,805
Thereafter	<u>571,090</u>
	<u>\$ 771,234</u>

The loans are due on demand and the District is subject to externally imposed minimum capital requirements, namely they must maintain a minimum Debt Service Ratio of 1.25 to 1.0 on an annual basis. As at December 31, 2018 the District was in compliance with this ratio.

The carrying value of the security at December 31, 2018 is \$2,432,579 (2017 - \$2,246,297).

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2018

7. Commitments

The District has two agreements with the Village of Keremeos ("the Village") (Bylaws 311 and 312). The agreements are for the provision of water and water system operation and maintenance. In 2015, under the terms of the agreement, an extension was signed extending the agreement up to June 30, 2019 for Bylaws 311 and 312.

The District signed a Letter of Understanding with the Village in 2014. The District agreed to give a 25% ownership of the water reservoir in exchange for \$300,000 in Provincial funding received by the Village. The condition to co-own is necessary as the Gas Tax Agreement between the Village and the Province states the tangible capital asset must be a benefit that is owned by the Village. If this condition is not met or the Village sells its share at any time within 10 years from the date of completion, the Village must repay the funds. Therefore, the Letter of Understanding states at the end of the 10 year period referred to in the Gas Tax Agreement, the Village will consider transferring ownership to the District. Alternatively, they may transfer ownership to to Province of BC.

The District signed an agreement with the Regional District Okanagan Similkameen ("the RDOS") in 2017 for \$78,000 in funding for the installation of water meters on well pumps that service the Village of Keremeos and Area 'G' residents. The agreement states that the District must retain title to, and ownership of, the infrastructure resulting from the project for at least five years after project completion. If the District sells, leases, encumbers or otherwise disposes of, directly or indirectly, any asset constructed, rehabilitated or improved, in whole or in part, with funds contributed by the RDOS for this project, other than to the Federal Government, the Government of the Province of British Columbia, a Local Government, or a Crown Corporation of British Columbia, the District will be required to repay the RDOS, on demand, a proportionate amount of the funds contributed by the RDOS, as follows: Within two years, 100% of the funding, and between two and five years after completion, 50% of the funding.

The District signed a Letter of Understanding with the Village in 2018. The Village agreed to give a 50% ownership of the Sparks Drive Supply Main in exchange for \$137,981. The agreement states that the District will be fully responsible for any operating, maintenance or repair costs associated with the Sparks Drive Supply Main. Additionally, the Village must retain title to, and ownership of, the infrastructure resulting from the project for at least five years after project completion. If the Village sells, leases, encumbers or otherwise disposes of, directly or indirectly, any asset constructed, rehabilitated or renovated, in whole or in part, with funds contributed by the Canada or the Province for this project, other than to Canada, the Province of British Columbia, a local government, or otherwise with Canada's consent, the Village may be required to repay any funds received for the Project.

8. Related party transactions

Each Board member of the District receives compensation for acting in their capacity as Trustees. During 2018, a total of \$7,665 (2017 - \$7,665) in compensation was paid to the Trustees.

Transactions with related parties are recorded at the exchange amount, which is the amount of consideration agreed to between the related parties.

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2018

9. Financial instruments

The District is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the District's risk exposure and concentration as of December 31, 2018.

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the District manages exposure through its normal operating and financing activities. The District is exposed to interest rate risk primarily through its floating interest rate credit facility.

Unless otherwise noted, it is management's opinion that the District is not exposed to significant other price risks arising from these financial instruments.

KEREMEOS IRRIGATION DISTRICT

Schedule of Operations By Fund and Object
Year Ended December 31, 2018

(Schedule 1)

	Budget (Unaudited) 2018	Operating Fund	Capital Reserve Fund	Capital Expenditure Fund	Capital Asset Fund	2018	2017
Revenue							
Domestic water	\$ 299,397	\$ 301,132	\$ -	\$ -	\$ -	\$ 301,132	\$ 292,809
Irrigation taxes	261,101	261,024	-	-	-	261,024	255,355
Contributed tangible capital assets	-	113,402	-	-	-	113,402	-
Capital levies	-	-	-	30,700	-	30,700	16,378
Percentage addition	-	7,163	-	-	-	7,163	6,656
Connection fees and upgrades	-	6,910	-	-	-	6,910	1,340
Sundry and expense recoveries	-	6,053	-	-	-	6,053	1,880
Interest	-	-	654	377	-	1,031	2,316
Interest and penalties on taxes	1,000	542	-	-	-	542	1,382
Grant revenue	-	-	-	-	-	-	78,000
	561,498	696,226	654	31,077	-	727,957	656,116
Operating expenses							
Amortization	-	-	-	-	90,835	90,835	88,973
Bad debts	-	409	-	-	-	409	335
Consulting fees	7,000	4,843	-	-	-	4,843	5,639
Insurance, licences and dues	27,250	38,048	-	-	-	38,048	26,737
Management wages	66,096	67,077	-	-	-	67,077	66,136
New reservoir costs	63,285	-	-	-	-	-	-
Pumphouse maintenance	39,600	17,506	-	-	-	17,506	6,049
Pumping power	158,150	146,707	-	-	-	146,707	155,644
System maintenance	25,700	24,818	-	-	-	24,818	20,887
Training	2,000	4,190	-	-	-	4,190	2,597
Vehicles	4,200	3,750	-	-	-	3,750	3,454
Wages	54,799	49,918	-	-	-	49,918	51,699
Total operating expenses	448,080	357,266	-	-	90,835	448,101	428,150

(continues)

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Schedule of Operations By Fund and Object *(continued)*

(Schedule 1)

Year Ended December 31, 2018

	Budget (Unaudited) 2018	Operating Fund	Capital Reserve Fund	Capital Expenditure Fund	Capital Asset Fund	2018	2017
Administrative expenses							
Bank charges and interest	850	387	-	-	-	387	831
Capital Purchases/Renewals	138,000	-	-	-	-	-	-
Employee benefits	20,499	20,132	-	-	-	20,132	17,683
Financial administrator	30,000	29,651	-	-	-	29,651	29,012
Interest on long term debt	-	26,404	-	-	-	26,404	25,400
Office and miscellaneous	5,700	5,448	-	-	-	5,448	6,515
Payroll Expenses	-	1,889	-	-	-	1,889	2,010
Professional fees	5,400	7,018	-	-	-	7,018	7,371
Telephone, internet and utilities	9,600	9,258	-	-	-	9,258	9,190
Trustee remuneration	7,665	7,665	-	-	-	7,665	7,665
Total administrative expenses	217,714	107,852	-	-	-	107,852	105,677
Annual surplus (deficit)	(104,296)	231,108	654	31,077	(90,835)	172,004	122,289
Accumulated surplus - beginning of year	1,998,975	154,142	354,748	51,907	1,438,178	1,998,975	1,876,686
Acquisition of tangible capital assets, net	-	(277,117)	-	-	277,117	-	-
Repayment of debt	-	(36,885)	-	-	36,885	-	-
Interfund transfers	-	105,000	(55,000)	(50,000)	-	-	-
Accumulated surplus - end of year	\$ 1,894,679	\$ 176,248	\$ 300,402	\$ 32,984	\$ 1,661,345	\$ 2,170,979	\$ 1,998,975

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Schedule of Tangible Capital Assets

(Schedule 2)

Year Ended December 31, 2018

	Land and right of ways	Tools and equipment	Patrol truck and backhoe	Paving and fencing	Pumps, wells, water systems, watermains	Hydrants, buildings and pumphouses	Reservoir	2018	2017
Cost									
Opening balance	\$ 51,546	\$ 39,843	\$ 59,798	\$ 23,318	\$ 2,134,763	\$ 710,072	\$ 818,315	\$ 3,837,655	\$ 3,699,642
Add: additions	-	2,620	-	4,494	270,003	-	-	277,117	138,721
Less: disposals	-	-	-	-	-	-	-	-	(708)
	51,546	42,463	59,798	27,812	2,404,766	710,072	818,315	4,114,772	3,837,655
Accumulated amortization									
Opening balance	-	28,123	7,306	11,786	1,005,047	503,317	35,779	1,591,358	1,503,093
Add: Amortization	-	2,254	3,503	828	60,328	13,693	10,229	90,835	88,973
Less: effects of disposals	-	-	-	-	-	-	-	-	(708)
	-	30,377	10,809	12,614	1,065,375	517,010	46,008	1,682,193	1,591,358
Net book value - December 31, 2018	\$ 51,546	\$ 12,086	\$ 48,989	\$ 15,198	\$ 1,339,391	\$ 193,062	\$ 772,307	\$ 2,432,579	
Net book value - December 31, 2017	\$ 51,546	\$ 11,720	\$ 52,492	\$ 11,532	\$ 1,129,716	\$ 206,755	\$ 782,536		\$ 2,246,297

See accompanying notes to financial statements.