

KEREMEOS IRRIGATION DISTRICT

Financial Statements

Year Ended December 31, 2016

KEREMEOS IRRIGATION DISTRICT

Index to Financial Statements

Year Ended December 31, 2016

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Operations and Accumulated Surplus	4
Statement of Changes in Net Financial Assets (Debt)	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 10
Schedule of Operations By Fund and Object (<i>Schedule 1</i>)	11 - 12
Schedule of Tangible Capital Assets (<i>Schedule 2</i>)	13



INDEPENDENT AUDITOR'S REPORT

To the Trustees of Keremeos Irrigation District

We have audited the accompanying financial statements of Keremeos Irrigation District, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and accumulated surplus, changes in net financial assets (debt) 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Keremeos Irrigation District as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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.

Omland Heal LLP

Chartered Professional Accountants

Penticton, BC
April 25, 2017

KEREMEOS IRRIGATION DISTRICT

Statement of Financial Position

December 31, 2016

	2016	2015
Financial assets		
Cash (Note 3)	\$ 467,003	\$ 538,587
Accounts receivable	44,732	41,047
	511,735	579,634
Liabilities		
Accounts payable and accrued liabilities (Note 4)	18,427	46,153
Deferred income	3,759	5,691
Long term debt (Note 5)	845,989	884,138
	868,175	935,982
Net financial assets (debt)	(356,440)	(356,348)
Non-financial assets		
Tangible capital assets (Schedule 2)	2,196,549	2,175,065
Supply inventory	18,617	21,706
Prepaid expenses	17,960	17,456
	2,233,126	2,214,227
Accumulated surplus	\$ 1,876,686	\$ 1,857,879

Commitments (Note 6)

Approved on behalf of the District

Trustee

Trustee

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Statement of Operations and Accumulated Surplus

Year Ended December 31, 2016

	Budget (Unaudited) 2016	2016	2015
Revenue			
Domestic water	\$ 286,892	\$ 281,839	\$ 269,630
Irrigation taxes	247,186	247,717	239,334
Capital admin fee	76,800	76,800	-
Gain on disposal of asset	-	7,500	-
Percentage addition	-	6,713	7,054
Capital levies	-	3,800	7,200
Interest	-	3,063	4,180
Connection fees and upgrades	-	2,158	2,243
Sundry and expense recoveries	-	3,120	2,170
Interest and penalties on taxes	-	489	429
	610,878	633,199	532,240
Expenses			
Operating expenses <i>(Schedule 1)</i>	341,625	446,375	435,806
Administrative expenses <i>(Schedule 1)</i>	241,250	168,017	101,259
	582,875	614,392	537,065
Annual surplus (deficit)	28,003	18,807	(4,825)
Accumulated surplus - beginning of year	1,857,879	1,857,879	1,862,704
Accumulated surplus - end of year	\$ 1,885,882	\$ 1,876,686	\$ 1,857,879

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Statement of Changes in Net Financial Assets (Debt)

Year Ended December 31, 2016

	Budget (Unaudited)			
	2016	2016	2015	
Annual surplus (deficit)	\$ 28,003	\$ 18,807	\$ (4,825)	
Acquisition of tangible capital assets	-	(107,344)	(67,751)	
Amortization of tangible capital assets	-	85,860	82,134	
(Gain) loss on disposal of tangible capital assets	-	(7,500)	2,735	
Proceeds from disposal of tangible capital assets	-	7,500	26,500	
	28,003	(2,677)	38,793	
Acquisition of prepaid expenses	-	(17,960)	(17,456)	
Use of prepaid expenses	-	17,456	17,610	
Acquisition of supply inventory	-	3,089	(3,639)	
	-	2,585	(3,485)	
Increase (decrease) in net financial assets (debt)	28,003	(92)	35,308	
Net financial assets (debt) - beginning of year	(356,348)	(356,348)	(391,656)	
Net financial assets (debt) - end of year	\$ (328,345)	\$ (356,440)	\$ (356,348)	

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Statement of Cash Flows

Year Ended December 31, 2016

	2016	2015
Operating activities		
Annual surplus (deficit)	\$ 18,807	\$ (4,825)
Items not affecting cash:		
Amortization	85,860	82,134
Loss (gain) on disposal of assets	(7,500)	2,735
	97,167	80,044
Changes in non-cash working capital:		
Accounts receivable	(3,685)	71,751
Accounts payable and accrued liabilities	(27,725)	(93,489)
Supply inventory	3,089	(3,639)
Deferred income	(1,932)	2,369
Prepaid expenses	(504)	154
	(30,757)	(22,854)
Net change in cash from operating activities	66,410	57,190
Capital activity		
Purchase of tangible capital assets	(107,345)	(67,751)
Proceeds on disposal of tangible capital assets	7,500	26,500
Cash flow used by capital activity	(99,845)	(41,251)
Financing activity		
Repayment of long term debt	(38,149)	(36,909)
Cash flow from (used by) financing activity	(38,149)	(36,909)
Decrease in cash and investments	(71,584)	(20,970)
Cash and investments - beginning of year	538,587	559,557
Cash and investments - end of year	\$ 467,003	\$ 538,587

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

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 12 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 balance and recognized when the service or product is provided by the District. Other revenue is recorded as it is earned and measurable. Amounts 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.

Use of estimates

The preparation of financial statements requires the Board to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenue and expenditures during the reporting period. Significant areas requiring the use of Board estimates related to the determination of the useful life of tangible capital assets and the related amortization. Actual results could differ from the Board's best estimates as additional information becomes available. Adjustments, if any, will be reflected in the financial statements in the period that the change in estimate is made, as well as in the period of settlement if the amount is different.

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KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

2. Significant accounting policies (*continued*)

Financial instruments

The District's financial instruments consist of cash and investments, accounts receivable, accounts payable and long term debt. Unless otherwise noted, it is the Board's opinion that the District is not exposed to significant interest, currency or credit risk arising from these financial instruments.

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization. Tangible capital assets are amortized over their estimated useful lives 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 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.

3. Cash

	2016	2015
Cash	\$ 467,003	\$ 538,587

In 2016, cash includes \$35,335 (2015 - \$239,313) internally restricted for use in the Capital Expenditure Fund.

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

4. Accounts payable

	2016	2015
Trade payables	\$ 6,794	\$ 7,832
Accrued liabilities	5,303	4,700
Payroll liabilities	4,474	6,681
Accrued interest	1,856	1,940
Holdbacks payable	-	25,000
	<u>\$ 18,427</u>	<u>\$ 46,153</u>

5. Long term debt

	2016	2015
CIBC term loan bearing interest at 2.592% per annum, repayable in annual blended payments of \$3,741. The loan matures on May 31, 2034 and is secured by the all present and after acquired personal property.	\$ 628,622	\$ 656,820
CIBC term loan bearing interest at 2.7% per annum, repayable in monthly blended payments of \$1,332. The loan matures on April 30, 2017 and is secured by all present and after acquired personal property.	217,367	227,318
	<u>\$ 845,989</u>	<u>\$ 884,138</u>

Principal repayment required for each of the next five years and in total are approximately:

2017	\$ 39,180
2018	40,219
2019	41,286
2020	42,381
2021	43,505
Thereafter	<u>639,418</u>
	<u>\$ 845,989</u>

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, 2016 the District was in compliance with this ratio.

The carrying value of the security at December 31, 2016 is \$2,196,549 (2015 - \$2,175,065).

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2016

6. 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 the Province of BC.

7. Related party transactions

Each Board member of the District receives compensation for acting in their capacity as Trustees. During 2016, a total of \$6,500 (2015 - \$6,500) 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.

8. Comparative figures

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

KEREMEOS IRRIGATION DISTRICT

Schedule of Operations By Fund and Object
Year Ended December 31, 2016

(Schedule 1)

	Budget (Unaudited) 2016	Operating Fund	Contingency Reserve Fund	Capital Expenditure Fund	Capital Asset Fund	Total 2016	Total 2015
Revenue							
Domestic water	\$ 286,892	\$ 281,839	\$ -	\$ -	\$ -	\$ 281,839	\$ 269,630
Irrigation taxes	247,186	247,717	-	-	-	247,717	239,334
Capital admin fee	76,800	76,800	-	-	-	76,800	-
Gain on disposal of asset	-	-	-	-	-	7,500	-
Percentage addition	-	6,713	-	-	-	6,713	7,054
Capital levies	-	-	-	3,800	-	3,800	7,200
Interest	-	-	1,604	1,459	-	3,063	4,180
Connection fees and upgrades	-	2,158	-	-	-	2,158	2,243
Sundry and expense recoveries	-	3,120	-	-	-	3,120	2,170
Interest and penalties on taxes	-	489	-	-	-	489	429
	610,878	618,836	1,604	5,259	7,500	633,199	532,240
Operating expenses							
Amortization	-	-	-	-	85,860	85,860	82,134
Bad debts	-	-	-	-	-	-	500
Consulting fees	-	7,446	-	-	-	7,446	5,800
Hydrant expenses	6,500	-	-	-	-	-	-
Insurance/locates	23,700	26,820	-	-	-	26,820	26,248
Loss on disposal of assets	-	-	-	-	-	-	2,735
Management wages	69,440	71,515	-	-	-	71,515	97,024
Pumphouse maintenance	15,700	5,782	-	-	-	5,782	10,989
Pumping power	156,800	145,777	-	-	-	145,777	150,790
System maintenance	20,500	55,930	-	-	-	55,930	17,104
Training	2,345	1,682	-	-	-	1,682	4,794
Vehicles	4,000	2,820	-	-	-	2,820	4,645
Wages	42,640	42,743	-	-	-	42,743	33,043
Total operating expenses	341,625	360,515	-	-	85,860	446,375	435,806

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See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Schedule of Operations By Fund and Object (continued)

Year Ended December 31, 2016

(Schedule 1)

	Budget (Unaudited) 2016	Operating Fund	Contingency Reserve Fund	Capital Expenditure Fund	Capital Asset Fund	Total 2016	Total 2015
Administrative expenses							
Bank charges and interest	850	590	-	-	-	590	860
Employee benefits	9,550	9,920	-	-	-	9,920	10,833
Financial administrator	32,500	29,695	-	-	-	29,695	31,506
Interest on long term debt	23,000	23,941	-	-	-	23,941	23,823
Office and miscellaneous	4,600	4,516	-	-	-	4,516	6,085
Payroll expenses	-	68	-	-	-	68	752
Professional fees	4,700	6,124	-	-	-	6,124	13,061
Telephone, internet and utilities	8,000	9,698	-	-	-	9,698	7,839
Trustee remuneration	6,500	6,665	-	-	-	6,665	6,500
Capital admin fee	151,550	-	-	76,800	-	76,800	-
Total administrative expenses	241,250	91,217	-	(76,800)	-	168,017	101,259
Annual surplus (deficit)	28,003	167,104	1,604	(71,541)	(78,360)	18,807	(4,825)
Accumulated surplus (deficit) - beginning of year	1,857,879	(44,946)	296,022	315,876	1,290,927	1,857,879	1,862,704
Acquisition of tangible capital assets, net	-	(99,844)	-	-	99,844	-	-
Repayment of debt	-	(38,149)	-	-	38,149	-	-
Interfund transfers	-	184,000	25,000	(209,000)	-	-	-
Accumulated surplus - end of the year	\$ 1,885,882	\$ 168,165	\$ 322,626	\$ 35,335	\$ 1,350,560	\$ 1,876,686	\$ 1,857,879

See accompanying notes to financial statements.

KEREMEOS IRRIGATION DISTRICT

Schedule of Tangible Capital Assets
Year Ended December 31, 2016

(Schedule 2)

	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	2016	2015
Cost									
Opening balance	\$ 51,546	\$ 33,444	\$ 47,726	\$ 23,318	\$ 1,996,363	\$ 638,546	\$ 818,315	\$ 3,609,258	\$ 3,588,022
Add: additions	-	1,488	29,032	-	5,298	71,526	-	107,344	67,751
Less: disposals	-	-	(16,960)	-	-	-	-	(16,960)	(46,515)
	51,546	34,932	59,798	23,318	2,001,661	710,072	818,315	3,699,642	3,609,258
Accumulated Amortization									
Opening balance	-	21,428	17,986	10,355	894,085	475,017	15,322	1,434,193	1,369,339
Add: Amortization	-	3,559	2,777	716	54,789	13,791	10,228	85,860	82,134
Less: effects of disposals	-	-	(16,960)	-	-	-	-	(16,960)	(17,280)
	-	24,987	3,803	11,071	948,874	488,808	25,550	1,503,093	1,434,193
Net book value-December 31, 2016	51,546	9,945	55,995	12,247	1,052,787	221,264	792,765	2,196,549	
Net book value-December 31, 2015	\$ 51,546	\$ 12,016	\$ 29,740	\$ 12,963	\$ 1,102,278	\$ 163,529	\$ 802,993	\$	2,175,065

See accompanying notes to financial statements.