

**KEREMEOS IRRIGATION
DISTRICT**

Financial Statements

Year Ended December 31, 2017

KEREMEOS IRRIGATION DISTRICT

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Year Ended December 31, 2017

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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, 2017 and the statements of operations and accumulated surplus, changes in net financial 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 accounting standards for not-for-profit organizations, 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, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 23, 2018

KEREMEOS IRRIGATION DISTRICT

Statement of Financial Position

December 31, 2017

	2017	2016
Financial assets		
Cash (Note 3)	\$ 503,816	\$ 467,003
Accounts receivable	61,318	44,732
	<u>565,134</u>	<u>511,735</u>
Liabilities		
Accounts payable and accrued liabilities (Note 4)	38,226	18,427
Deferred income	3,961	3,759
Long term debt (Note 5)	808,119	845,989
	<u>850,306</u>	<u>868,175</u>
Net financial debt	<u>(285,172)</u>	<u>(356,440)</u>
Non-financial assets		
Tangible capital assets (Schedule 2)	2,246,297	2,196,549
Supply inventory	19,421	18,617
Prepaid expenses	18,429	17,960
	<u>2,284,147</u>	<u>2,233,126</u>
Accumulated surplus	<u>\$ 1,998,975</u>	<u>\$ 1,876,686</u>

Commitments (Note 6)

Approved on behalf of the District

_____ Trustee

_____ Trustee

See notes to financial statements

KEREMEOS IRRIGATION DISTRICT

Statement of Operations and Accumulated Surplus

Year Ended December 31, 2017

	Budget (Unaudited) 2017	2017	2016
Revenue			
Domestic water	\$ 290,723	\$ 292,809	\$ 281,839
Irrigation taxes	255,148	255,355	247,717
Grant revenue	-	78,000	-
Capital levies	-	16,378	3,800
Percentage addition	-	6,656	6,713
Interest	-	2,316	3,063
Sundry and expense recoveries	-	1,880	3,120
Interest and penalties on taxes	-	1,382	489
Connection fees and upgrades	-	1,340	2,158
Capital admin fee	78,000	-	76,800
Gain on disposal of asset	-	-	7,500
	623,871	656,116	633,199
Expenses			
Operating expenses (<i>Schedule 1</i>)	354,759	428,150	446,375
Administrative expenses (<i>Schedule 1</i>)	165,321	105,677	168,017
	520,080	533,827	614,392
Annual surplus	103,791	122,289	18,807
Accumulated surplus - beginning of year	1,876,686	1,876,686	1,857,879
Accumulated surplus - end of year	\$ 1,980,477	\$ 1,998,975	\$ 1,876,686

See notes to financial statements

KEREMEOS IRRIGATION DISTRICT

Statement of Changes in Net Financial Debt

Year Ended December 31, 2017

	Budget (Unaudited)		
	2017	2017	2016
Annual surplus	\$ 103,791	\$ 122,289	\$ 18,807
Acquisition of tangible capital assets	-	(138,721)	(107,344)
Amortization of tangible capital assets	-	88,973	85,860
Gain on disposal of tangible capital assets	-	-	(7,500)
Proceeds from disposal of tangible capital assets	-	-	7,500
	103,791	72,541	(2,677)
Acquisition of prepaid expenses	-	(18,429)	(17,960)
Use of prepaid expenses	-	17,960	17,456
Acquisition of supply inventory	-	(804)	3,089
	-	(1,273)	2,585
Increase (decrease) in net financial assets (debt)	103,791	71,268	(92)
Net financial debt - beginning of year	(356,440)	(356,440)	(356,348)
Net financial debt - end of year	\$ (252,649)	\$ (285,172)	\$ (356,440)

See notes to financial statements

KEREMEOS IRRIGATION DISTRICT

Statement of Cash Flows

Year Ended December 31, 2017

	2017	2016
Operating activities		
Annual surplus	\$ 122,289	\$ 18,807
Items not affecting cash:		
Amortization	88,973	85,860
Gain on disposal of assets	-	(7,500)
	211,262	97,167
Changes in non-cash working capital:		
Accounts receivable	(16,586)	(3,685)
Accounts payable and accrued liabilities	19,799	(27,725)
Supply inventory	(804)	3,089
Deferred income	202	(1,932)
Prepaid expenses	(469)	(504)
	2,142	(30,757)
Net change in cash from operating activities	213,404	66,410
Capital activity		
Purchase of tangible capital assets	(138,721)	(107,345)
Proceeds on disposal of tangible capital assets	-	7,500
Cash flow used by capital activity	(138,721)	(99,845)
Financing activity		
Repayment of long term debt	(37,870)	(38,149)
Cash flow used by financing activity	(37,870)	(38,149)
Increase (decrease) in cash and investments	36,813	(71,584)
Cash and investments - beginning of year	467,003	538,587
Cash and investments - end of year	\$ 503,816	\$ 467,003

See notes to financial statements

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2017

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 basis 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, 2017

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

	2017	2016
Cash	\$ 503,816	\$ 467,003

In 2017, cash includes \$51,907 (2016 - \$35,335) internally restricted for use in the Capital Expenditure Fund.

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements
Year Ended December 31, 2017

4. Accounts payable

	2017	2016
Trade payables	\$ 22,745	\$ 6,794
Accrued liabilities	5,505	5,303
Payroll liabilities	5,916	4,474
Accrued interest	2,196	1,856
Banked hours payable	1,864	-
	\$ 38,226	\$ 18,427

5. Long term debt

	2017	2016
CIBC term 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 the all present and after acquired personal property.	\$ 600,664	\$ 628,622
CIBC term loan bearing interest at prime (currently 3.2%) 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.	207,455	217,367
	\$ 808,119	\$ 845,989

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

2018	\$ 40,219
2019	41,286
2020	42,381
2021	43,505
2022	44,659
Thereafter	596,069
	\$ 808,119

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, 2017 the District was in compliance with this ratio.

The carrying value of the security at December 31, 2017 is \$2,246,297 (2016 - \$2,196,549).

KEREMEOS IRRIGATION DISTRICT

Notes to Financial Statements

Year Ended December 31, 2017

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.

The District signed an agreement with the Regional District Okanagan Similkameen (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.

7. Related party transactions

Each Board member of the District receives compensation for acting in their capacity as Trustees. During 2017, a total of \$7,665 (2016 - \$6,665) 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.

8. 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, 2017.

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.

9. 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, 2017

(Schedule 1)

	Budget (Unaudited) 2017	Operating Fund	Contingency Reserve Fund	Capital Expenditure Fund	Capital Asset Fund	Total 2017	Total 2016
Revenue							
Domestic water	\$ 290,723	\$ 292,809	\$ -	\$ -	\$ -	\$ 292,809	\$ 281,839
Irrigation taxes	255,148	255,355	-	-	-	255,355	247,717
Grant revenue	-	78,000	-	-	-	78,000	-
Capital levies	-	-	-	16,378	-	16,378	3,800
Percentage addition	-	6,656	-	-	-	6,656	6,713
Interest	-	-	2,122	194	-	2,316	3,063
Sundry and expense recoveries	-	1,880	-	-	-	1,880	3,120
Interest and penalties on taxes	-	1,382	-	-	-	1,382	489
Connection fees and upgrades	-	1,340	-	-	-	1,340	2,158
Capital admin fee	78,000	-	-	-	-	-	76,800
Gain on disposal of asset	-	-	-	-	-	-	7,500
	623,871	637,422	2,122	16,572	-	656,116	633,199
Operating expenses							
Amortization	-	-	-	-	88,973	88,973	85,860
Bad debts	-	335	-	-	-	335	-
Consulting fees	7,000	5,639	-	-	-	5,639	7,446
Hydrant expenses	6,000	-	-	-	-	-	-
Insurance	27,200	26,737	-	-	-	26,737	26,820
Management wages	64,709	66,136	-	-	-	66,136	71,515
Pumphouse maintenance	15,700	6,049	-	-	-	6,049	5,782
Pumping power	158,150	155,644	-	-	-	155,644	145,777
System maintenance	23,200	20,887	-	-	-	20,887	55,930
Training	2,000	2,597	-	-	-	2,597	1,682
Vehicles	4,000	3,454	-	-	-	3,454	2,820
Wages	46,800	51,699	-	-	-	51,699	42,743
Total operating expenses	354,759	339,177	-	-	88,973	428,150	446,375

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See notes to financial statements

KEREMEOS IRRIGATION DISTRICT

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

(Schedule 1)

Year Ended December 31, 2017

	Budget (Unaudited) 2017	Operating Fund	Contingency Reserve Fund	Capital Expenditure Fund	Capital Asset Fund	Total 2017	Total 2016
Administrative expenses							
Bank charges and interest	850	831	-	-	-	831	590
Capital admin fee	89,000	-	-	-	-	-	76,800
Employee benefits	18,221	17,683	-	-	-	17,683	9,920
Financial administrator	31,000	29,012	-	-	-	29,012	29,695
Interest on long term debt	-	25,400	-	-	-	25,400	23,941
Office and miscellaneous	5,300	6,515	-	-	-	6,515	4,516
Payroll expenses	-	2,010	-	-	-	2,010	68
Professional fees	5,050	7,371	-	-	-	7,371	6,124
Telephone, internet and utilities	9,200	9,190	-	-	-	9,190	9,698
Trustee remuneration	6,700	7,665	-	-	-	7,665	6,665
Total administrative expenses	165,321	105,677	-	-	-	105,677	168,017
Annual surplus (deficit)	103,791	192,568	2,122	16,572	(88,973)	122,289	18,807
Accumulated surplus - beginning of year	1,876,686	168,165	322,626	35,335	1,350,560	1,876,686	1,857,879
Acquisition of tangible capital assets, net	-	(138,721)	-	-	138,721	-	-
Repayment of debt	-	(37,870)	-	-	37,870	-	-
Interfund transfers	-	(30,000)	30,000	-	-	-	-
Accumulated surplus - end of the year	\$ 1,980,477	\$ 154,142	\$ 354,748	\$ 51,907	\$ 1,438,178	\$ 1,998,975	\$ 1,876,686

See notes to financial statements

KEREMEOS IRRIGATION DISTRICT

Schedule of Tangible Capital Assets

(Schedule 2)

Year Ended December 31, 2017

	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	2017	2016
Cost									
Opening balance	\$ 51,546	\$ 34,932	\$ 59,798	\$ 23,318	\$ 2,001,661	\$ 710,072	\$ 818,315	\$ 3,699,642	\$ 3,609,258
Add: additions	-	5,619	-	-	133,102	-	-	138,721	107,344
Less: disposals	-	(708)	-	-	-	-	-	(708)	(16,960)
	51,546	39,843	59,798	23,318	2,134,763	710,072	818,315	3,837,655	3,699,642
Accumulated Amortization									
Opening balance	-	24,987	3,803	11,071	948,874	488,808	25,550	1,503,093	1,434,193
Add: Amortization	-	3,844	3,503	715	56,173	14,509	10,229	88,973	85,860
Less: effects of disposals	-	(708)	-	-	-	-	-	(708)	(16,960)
	-	28,123	7,306	11,786	1,005,047	503,317	35,779	1,591,358	1,503,093
Net book value-December 31, 2017	51,546	11,720	52,492	11,532	1,129,716	206,755	782,536	2,246,297	
Net book value-December 31, 2016	\$ 51,546	\$ 9,945	\$ 55,995	\$ 12,247	\$ 1,052,787	\$ 221,264	\$ 792,765		\$ 2,196,549

See notes to financial statements