

Financial Statements of

**RAYLEIGH WATERWORKS  
DISTRICT**

Year ended December 31, 2018

# RAYLEIGH WATERWORKS DISTRICT

## Financial Statements

Year ended December 31, 2018

### Financial Statements

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## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The accompanying financial statements of the Rayleigh Waterworks District (the "District") are the responsibility of the District's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The District's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Board of Trustees meet with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the District. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the District's financial statements.

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*Shelley Mathes, Administrator*



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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Rayleigh Waterworks District

### *Opinion*

We have audited the financial statements of Rayleigh Waterworks District (the District), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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 its results of operations, its changes in net debt 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 "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' 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 these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## ***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 related 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.

## ***Auditors' 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 auditors' 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 the 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 auditors' 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 auditors' 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.

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.

*KPMG LLP*

Chartered Professional Accountants

Kamloops, Canada

April 10, 2019

# RAYLEIGH WATERWORKS DISTRICT

## Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
<b>Financial assets:</b>		
Cash and cash equivalents (note 2)	\$ 173,693	\$ 240,448
Temporary investments (note 2)	573,811	460,103
Accounts receivable (note 3)	92,941	80,037
	<u>840,445</u>	<u>780,588</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	45,919	51,009
Deferred revenue	13,729	12,080
	<u>59,648</u>	<u>63,089</u>
Net financial assets	780,797	717,499
<b>Non-financial assets:</b>		
Tangible capital assets (note 4)	3,159,517	3,267,413
Prepaid expenses	25,622	21,478
	<u>3,185,139</u>	<u>3,288,891</u>
<b>Accumulated surplus</b> (note 5)	<u>\$ 3,965,936</u>	<u>\$ 4,006,390</u>

Contingent liabilities (note 6)

The accompanying notes are an integral part of these financial statements.

# RAYLEIGH WATERWORKS DISTRICT

## Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	Budget (note 8)	2018	2017
Revenue:			
Taxation	\$ 79,496	\$ 79,830	\$ 75,311
Water user rates and connection fees	618,177	590,994	562,814
Sewer user rates and connection fees	55,467	59,028	48,391
Interest income	-	4,133	1,747
Penalties and interest on taxes	22,342	22,553	22,342
Sundry	22,342	1,144	2,401
Gain on sale of capital assets	-	-	2,479
Contributed tangible capital asset	-	13,908	-
Total revenue	797,824	771,590	715,485
Expenses:			
Water utility	543,077	726,987	713,194
Sewer utility	86,770	85,057	77,386
Total expenses	629,847	812,044	790,580
Annual surplus (deficiency)	167,977	(40,454)	(75,095)
Accumulated surplus, beginning of year	4,006,390	4,006,390	4,081,485
Accumulated surplus, end of year	\$ 4,174,367	\$ 3,965,936	\$ 4,006,390

The accompanying notes are an integral part of these financial statements.

# RAYLEIGH WATERWORKS DISTRICT

## Statement of Changes in Net Financial Assets

Year ended December 31, 2018, with comparative information for 2017

	Budget (note 8)	2018	2017
Annual surplus (deficiency)	\$ 167,977	\$ (40,454)	\$ (75,095)
Acquisition of tangible capital assets	(91,200)	(101,333)	(96,590)
Amortization of tangible capital assets	-	209,229	196,589
Gain on sale of tangible capital assets	-	-	(2,479)
Proceeds on sale of tangible capital assets	-	-	51,429
	76,777	67,442	73,854
Acquisition of prepaid expenses	-	(25,622)	(21,478)
Use of prepaid expenses	-	21,478	21,920
	-	(4,144)	442
Change in net financial assets	76,777	63,298	74,296
Net financial assets, beginning of year	717,499	717,499	643,203
Net financial assets, end of year	\$ 794,276	\$ 780,797	\$ 717,499

The accompanying notes are an integral part of these financial statements.

# RAYLEIGH WATERWORKS DISTRICT

## Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual deficiency	\$ (40,454)	\$ (75,095)
Items not involving cash:		
Amortization of tangible capital assets	209,230	196,589
Loss on disposal of tangible capital assets	-	(2,479)
Contribution of tangible capital asset	(13,908)	-
Change in non-cash operating assets and liabilities:		
Accounts receivable	(12,904)	56,607
Accounts payable and accrued liabilities	(5,090)	9,813
Deferred revenue	1,649	2,985
Prepaid expenses	(4,144)	442
Net change in cash from operating activities	134,379	188,862
Capital activities:		
Acquisition of tangible capital assets	(87,426)	(96,589)
Proceeds on sale of tangible capital assets	-	51,429
Net change in cash from capital activities	(87,426)	(45,160)
Investing activities:		
Investments in short-term investments, net	(113,708)	(235,044)
Decrease in cash and cash equivalents	(66,755)	(91,342)
Cash and cash equivalents, beginning of year	240,448	331,790
Cash and cash equivalents, end of year	\$ 173,693	\$ 240,448
Supplemental cash flow information:		
Cash received from interest	\$ 4,133	\$ 1,747

The accompanying notes are an integral part of these financial statements.

# RAYLEIGH WATERWORKS DISTRICT

## Notes to Financial Statements

Year ended December 31, 2018

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The Rayleigh Waterworks District (the "District") was incorporated on July 6, 1965 under the former Municipal Act, a statute of the Province of British Columbia. The District provides water and sewer services to the residents of Rayleigh, a community within Kamloops, British Columbia.

### 1. Significant accounting policies:

The financial statements of the District are prepared by management in accordance with Canadian generally accepted accounting principles for governments as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies of the District are as follows:

(a) Reporting entity:

The financial statements reflect the assets, liabilities, revenues and expenses of all funds of the District, which include the General, Capital, Water Utility, Sewer Sanitary and Reserve funds. Individual fund statements have not been included in these financial statements as they are prepared on the basis of the District as a whole. Inter-fund balances and transactions have been eliminated in the financial statements.

(b) Basis of accounting:

The District follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Revenue recognition:

Taxation revenues are recognized in the year they are assessable.

Water and sewer user rates, connection fees, interest and penalties are recognized as revenue in the year the service is provided.

Sundry revenue and development cost charges are recognized as earned.

Externally restricted contributions are recognized as revenue in the year in which the related expenditures are incurred and restrictive criteria met.

The District has unspent cash reserves within individual funds, which earn interest income annually. Interest earned on specific cash reserves is allocated to the individual functions and reserve accounts throughout the year based on their pro-rated balances.

(d) Cash and temporary investments:

Cash and temporary investments includes term deposits with maturity dates greater than 90 days after acquisition. Investments are recorded at cost.

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

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## 1. Significant accounting policies (continued):

### (e) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

#### (i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Excluding land, the cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful life - years
Water and sewer system	20-80
Office equipment	5-10
Vehicles and machinery	5-20
Tools	5

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Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

#### (ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

#### (iii) Natural resources

Natural resources that have not been purchased are not recognized as assets in the financial statements.

#### (iv) Interest capitalization

The District does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

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## 1. Significant accounting policies (continued):

### (e) Non-financial assets (continued):

#### (v) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

### (f) Use of estimates:

The preparation of financial statements in accordance with PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating historic costs and useful lives of certain tangible capital assets. Management reviews these estimates on a periodic basis and, where necessary, makes adjustments prospectively. Actual results could differ from these estimates.

### (g) Contaminated sites:

Contaminated sites are defined as the result of being introduced in air, soil, water or sediment of chemical, organic, or radioactive material or live organism that exceeds an environmental standard.

A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met:

- a) an environmental standard exists
- b) contamination exceeds the environmental standard
- c) the organization is directly responsible or accepts responsibility for liability
- d) future economic benefits will be given up, and
- e) a reasonable estimate of the liability can be made

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 2. Cash and temporary investments:

Cash and temporary investments reported on the statement of financial position have a cost that approximates market value. Cash equivalents consist of investments primarily in Guaranteed Investment Certificates with annual rates of return between approximately 0.5% and 1.2% (2017 - 0.50% and 0.90%).

Restrictions around the use of cash and cash equivalents are as follows:

	2018	2017
Unrestricted	\$ 322,287	\$ 359,472
Internally restricted:		
Water reserve	404,560	292,829
Sewer reserve	13,160	40,753
Future capital projects	7,497	7,497
<b>Total</b>	<b>\$ 747,504</b>	<b>\$ 700,551</b>
Consisting of:		
Cash and cash equivalents	\$ 173,693	\$ 240,448
Temporary investments	573,811	460,103
<b>Total</b>	<b>\$ 747,504</b>	<b>\$ 700,551</b>

## 3. Accounts receivable:

Accounts receivable reported on the statement of financial position consists of:

	2018	2017
Sales tax rebates receivable	\$ 16,905	\$ 15,478
Utility billings	76,036	64,559
	<b>\$ 92,941</b>	<b>\$ 80,037</b>

A valuation allowance for uncollectible amounts totaling \$nil (2017 - \$nil) has been recorded as at December 31, 2018. All remaining amounts are considered to be collectible.

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 4. Tangible capital assets:

2018	Land	Water and sewer system	Office equipment	Vehicles and machinery	Tools	Total
<b>Cost:</b>						
Balance, beginning of year	\$ 27,046	\$ 5,798,140	\$ 8,513	\$ 36,602	\$ 56,888	\$ 5,927,189
Additions	-	101,331	-	-	-	101,331
Balance, end of year	27,046	5,899,471	8,513	36,602	56,888	6,028,520
<b>Accumulated amortization:</b>						
Balance, beginning of year	-	2,592,194	6,568	9,391	51,620	2,659,773
Amortization expense	-	199,810	576	6,991	1,853	209,230
Balance, end of year	-	2,792,004	7,144	16,382	53,473	2,869,003
Net book value, end of year	\$ 27,046	\$ 3,107,467	\$ 1,369	\$ 20,220	\$ 3,415	\$ 3,159,517

2017	Land	Water and sewer system	Office equipment	Vehicles and machinery	Tools	Total
<b>Cost:</b>						
Balance, beginning of year	\$ 27,046	\$ 5,742,849	\$ 8,512	\$ 79,732	\$ 54,499	\$ 5,912,638
Additions	-	65,597	-	28,601	2,391	96,589
Disposals	-	(10,310)	-	(71,732)	-	(82,042)
Balance, end of year	27,046	5,798,136	8,512	36,601	56,890	5,927,185
<b>Accumulated amortization:</b>						
Balance, beginning of year	-	2,416,536	5,417	25,180	49,142	2,496,275
Disposals	-	(10,310)	-	(22,782)	-	(33,092)
Amortization expense	-	185,967	1,151	6,992	2,479	196,589
Balance, end of year	-	2,592,193	6,568	9,390	51,621	2,659,772
Net book value, end of year	\$ 27,046	\$ 3,205,943	\$ 1,944	\$ 27,211	\$ 5,269	\$ 3,267,413

### a) Contributed tangible capital assets

During the year, the District received a fire hydrant as a contributed asset recorded in sewer and water system. Fair value for the fire hydrant at the date of contribution was \$13,908.

### b) Write-down of tangible assets

Write-downs of tangible capital assets as a result of impairment totaled \$nil (2017 - \$nil).

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 5. Accumulated surplus:

Accumulated surplus consists of individual fund surpluses and reserve funds as follows:

	2018	2017
<b>Surplus:</b>		
Invested in tangible capital assets	\$ 3,159,517	\$ 3,267,413
Unrestricted surplus	381,202	397,898
Total surplus	3,540,719	3,665,311
<b>Reserves set aside by Board of Trustees:</b>		
Water reserve	404,560	292,829
Sewer reserve	13,160	40,753
Future capital projects	7,497	7,497
Total reserve funds	425,217	341,079
	<b>\$ 3,965,936</b>	<b>\$ 4,006,390</b>

## 6. Contingent liabilities:

The District leases, for nil consideration, seven lots (the "land") from the City of Kamloops for use as septic fields within Rayleigh. Upon the termination of use of the land by either party, the District is required to remediate the land to a condition in accordance with Ministry of Environment Standards. The termination date of use of the land and the estimate of cost to the District of remediation is unknown at this time.

## 7. Segmented information:

Segmented information has been identified based upon lines of service provided by the District. District services are provided by departments and their activities are reported by functional area in the body of the financial statements. Certain lines of service that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

### (i) Public Works – Water

The Public Works department is responsible for the delivery of municipal public works services related to the planning, development and maintenance of water systems and the water treatment plant.

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 7. Segmented information (continued):

### (ii) Public Works – Sewer

The District is responsible for the delivery of municipal public works services related to the planning, development and maintenance of sewer systems.

Certain allocation methodologies are employed in the preparation of segmented financial information. User charges and other revenue have been allocated to the segments based upon the segment that generated the revenue. Government transfers are allocated to the segment based upon the purpose for which the transfer was made.

The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1.

In the current year, management has redefined the lines of service offered by the District. The comparative figures have been reclassified to conform with the lines of service presentation adopted for the current year.

2018	Water	Sewer	Total
<b>Revenues:</b>			
Taxation	\$ 79,830	\$ -	\$ 79,830
User charges	590,994	59,028	650,022
Investment income	3,720	413	4,133
Penalties and interest	21,876	677	22,553
Sundry	14,823	229	15,052
Total revenues	711,243	60,347	771,590
<b>Expenses:</b>			
Salaries, wages and employee benefits	236,518	34,889	271,407
Operating	291,297	40,111	331,408
Amortization	199,172	10,057	209,229
Total expenses	726,987	85,057	812,044
Annual deficiency	\$ (15,744)	\$ (24,710)	\$ (40,454)

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 7. Segmented information (continued):

2017	Water	Sewer	Total
<b>Revenues:</b>			
Taxation	\$ 75,311	\$ -	\$ 75,311
User charges	562,814	48,391	611,205
Investment income	1,572	175	1,747
Penalties and interest	21,672	670	22,342
Sundry	2,017	384	2,401
Gain on sale of capital assets	2,479	-	2,479
Total revenues	665,865	49,620	715,485
<b>Expenses:</b>			
Salaries, wages and employee benefits	224,360	28,338	252,698
Operating	304,009	37,284	341,293
Amortization	184,825	11,764	196,589
Total expenses	713,194	77,386	790,580
Annual deficiency	\$ (47,329)	\$ (27,766)	\$ (75,095)

# RAYLEIGH WATERWORKS DISTRICT

Notes to Financial Statements (continued)

Year ended December 31, 2018

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## 8. Budget data:

The budget data presented in these financial statements represent the 2018 operating and capital budgets approved by the Board of Trustees on November 29, 2017. These figures do not reflect subsequent amendments made by the Board of Trustees throughout the year.

In accordance with PSAB, budget figures are presented on the same basis of accounting as the actual and comparative figures. Cash inflows and outflows contemplated in the budget include such things as debt proceeds and capital expenditures. These items are not recognized as revenues or expenses in the statement of operations as they do not meet the definition of such under PSAB.

Legislation does not require the funding of non-cash items such as amortization expense, thus there is no legislative requirement to include these items in the financial plan. As such, amortization expense was not contemplated on development of the approved 2018 budget. However, amortization expense is recognized in the statement of operations in actual figures under PSAB.

The chart below reconciles the budget figures reported in these financial statements to the approved budget.

	Budget amount
Budgeted annual surplus, per Statement of Operations	\$ 167,977
Less:	
Capital expenditures	(91,200)
Annual surplus, per Financial Plan	\$ 76,777

## 9. Comparative figures:

Certain 2017 comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. The changes do not affect prior year's surplus (deficit).

