

SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees: **Ships Point Improvement District**

Opinion

I have audited the accompanying consolidated financial statements of Ships Point Improvement District, which comprise of the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of operations and changes in fund balances and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, included a summary of significant accounting policies.

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ships Point Improvement District (the Improvement District) as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards excluding the Public Sector 4200 series.

Basis of Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Improvement District in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards excluding the Public Sector 4200 series, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Improvement 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 Improvement District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Improvement District's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated 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 my 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 consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT - Continued

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As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Improvement 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 Improvement District's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Improvement District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

Brent Johnson, CPA Ltd.
Chartered Professional Accountant

Qualicum Beach, British Columbia

Not dated

SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

	2020	2019
Financial assets		
Cash and short term investments	\$ 654,116	\$ 786,145
Accounts receivable (Note 3)	6,335	6,928
Due from government agency	<u>50,243</u>	<u>79,899</u>
	<u>710,694</u>	<u>872,972</u>
Liabilities		
Accounts payable and accrued liabilities	13,969	12,052
Due to government agency	880	862
Province of British Columbia debt (Note 4)	128,007	144,389
Royal Bank of Canada loans (Note 5)	2,495,620	1,473,366
Comox Valley Regional District contribution (Note 10)	<u>75,000</u>	<u>75,000</u>
	<u>2,713,476</u>	<u>1,705,669</u>
Net financial assets	<u>(2,002,782)</u>	<u>(832,697)</u>
Non-financial assets		
Tangible capital assets (Note 6)	3,117,011	1,996,141
Supply inventory	9,265	9,265
Prepaid expense	<u>12,253</u>	<u>12,163</u>
	<u>3,138,529</u>	<u>2,017,569</u>
Accumulated surplus - Page 2	<u>\$ 1,135,747</u>	<u>\$ 1,184,872</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		

APPROVED BY THE DIRECTORS

_____ Trustee

_____ Trustee

The auditor's report and notes are an integral part of the consolidated financial statements.

SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2020

	2020 Operating Budget	2020	2019
REVENUE			
Parcel taxes	\$ 70,600	\$ 70,598	\$ 61,448
Capital Expenditure Fund	172,200	172,200	172,200
Sale of services	97,600	99,019	83,982
Interest income	6,800	16,131	28,031
Province of British Columbia (Note 4)	-	20,353	20,353
Other income	2,450	1,200	303
Gain on sale of tangible capital assets	-	<u>8,122</u>	<u>-</u>
	<u>349,650</u>	<u>387,623</u>	<u>366,317</u>
EXPENSES			
Amortization of tangible capital assets	-	190,923	126,531
Donations	-	1,100	1,075
Insurance	20,750	19,947	19,461
Interest – Province of British Columbia (Note 4)	-	3,971	4,409
Interest - Royal Bank of Canada (Note 5)	-	67,164	57,913
Office expenses	12,900	12,579	10,650
Professional fees	8,000	8,300	8,728
Repairs and maintenance	24,175	31,751	11,953
Travel and training	8,025	6,456	4,398
Utilities	13,675	12,911	13,640
Wages and benefits	<u>87,275</u>	<u>81,646</u>	<u>94,486</u>
	<u>174,800</u>	<u>436,748</u>	<u>353,244</u>
Annual surplus	174,850	(49,125)	13,073
Accumulated surplus			
Beginning balance	<u>1,184,872</u>	<u>1,184,872</u>	<u>1,171,799</u>
Ending balance - Page 1	<u>\$ 1,359,722</u>	<u>\$ 1,135,747</u>	<u>\$ 1,184,872</u>

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SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

YEAR ENDED DECEMBER 31, 2020

	2020 Budget	2020	2019
ANNUAL SURPLUS	\$ 174,850	\$ (49,125)	\$ 13,073
Acquisition of tangible capital assets	-	(1,315,849)	(48,208)
Amortization of tangible capital assets	-	190,923	126,531
(Gain) loss on sale of tangible capital assets	-	8,122	-
Proceeds on sale of tangible capital assets	<u>-</u>	<u>12,178</u>	<u>-</u>
	<u>174,850</u>	<u>(1,153,751)</u>	<u>91,396</u>
Consumption (acquisition) of supply inventory	-	-	(2,197)
Use (acquisition) of prepaid expense	<u>-</u>	<u>(90)</u>	<u>332</u>
	<u>-</u>	<u>(90)</u>	<u>(1,865)</u>
Increase in net financial assets	174,850	(1,153,841)	89,531
NET FINANCIAL ASSETS			
Beginning balance	<u>(832,697)</u>	<u>(832,697)</u>	<u>(922,228)</u>
Ending balance	<u><u>\$ (657,847)</u></u>	<u><u>\$ (2,002,782)</u></u>	<u><u>\$ (832,697)</u></u>

The auditor's report and notes are an integral part of the consolidated financial statements.

SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

	2020	2019
Cash provided by (used in)		
Operating transactions		
Annual surplus (deficit)	\$ (49,125)	\$ 13,073
Amortization of tangible capital assets	190,923	126,531
(Gain) loss on sale of tangible capital assets	<u>(8,122)</u>	<u>-</u>
	<u>133,676</u>	<u>139,604</u>
Changes in non-cash operating balances		
Accounts receivable	593	3,121
Due from government agency	29,656	(6,803)
Accounts payable and accrued liabilities	1,917	-
Due to government agency	18	156
Supply inventory	-	(2,197)
Prepaid expenses	<u>(90)</u>	<u>332</u>
	<u>32,094</u>	<u>(5,391)</u>
Net Cash Provided by Operating Activities	<u>165,770</u>	<u>134,213</u>
Financing transactions		
Issuance of long term debt	1,343,336	-
Reduction in long term debt	<u>(337,464)</u>	<u>(60,978)</u>
	<u>1,005,872</u>	<u>(60,978)</u>
Capital transactions		
Acquisition of tangible capital assets	(1,315,849)	(48,208)
Proceeds on sale of tangible capital assets	<u>12,178</u>	<u>-</u>
	<u>(1,303,671)</u>	<u>(48,208)</u>
Increase in cash and cash equivalents	(132,029)	25,027
CASH AND SHORT TERM INVESTMENTS		
Beginning balance	<u>786,145</u>	<u>761,118</u>
Ending balance	\$ <u>654,116</u>	\$ <u>786,145</u>

The auditor's report and notes are an integral part of the consolidated financial statements.

SHIPS POINT IMPROVEMENT DISTRICT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

1. HISTORY AND NATURE OF THE IMPROVEMENT DISTRICT

The **Ships Point Improvement District** (Improvement District) was incorporated in 1979 under the laws of the Province of British Columbia, to provide water supply and fire protection services to the residents of Ships Point Improvement District.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **The Improvement District** prepares its financial statements in accordance with Canadian Public Sector Accounting Standards excluding the Public Sector 4200 series for local government as recommended by the Public Sector Accounting Board.

The consolidated financial statements reflect the combined results and activities of the Improvement District which is comprised of operating and capital funds, and all organizations that are accountable for the administration of the Improvement District's financial affairs and resources to the Board of Trustees and are controlled or owned by the Improvement District. Interfund transactions have been eliminated on consolidation.

- i. **Operating and Reserve Funds** include the Waterworks and Fire Department's operating costs of the services provided by the Improvement District and funds established by the Trustees of the Improvement District, by bylaw, to be used for expenditures related to upgrading, replacement or renewal of any existing tangible capital assets. These funds, and interest earned thereon, must only be invested and disbursed by bylaw passed by the Trustees of the Improvement District.
- ii. **Capital Funds** include the Waterworks and Fire Department's capital fund which is used to record the acquisition and disposal of tangible capital assets and their related financing.

(b) **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.

(c) **Tangible capital assets** are recorded at cost and amortized over their useful lives, in accordance to the provisions of Public Sector 3150. Tangible capital assets are a special class of non-financial assets and are recorded at cost less accumulated amortization and are classified according to their functional use. Cost includes all costs directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Amortization is recorded annually at the following rates and methods over the estimated useful life of the tangible capital assets commencing when the asset is put into use. Donated tangible capital assets are recorded at fair value at the time of the donation.

Buildings	6% declining balance
Equipment	20% declining balance
Water mains	6% declining balance
Wells and casings	6% declining balance
Fire trucks	20 year straight line basis
Computer equipment	55% declining balance

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SHIPS POINT IMPROVEMENT DISTRICT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

(d) **Revenue recognition** is recorded when it is earned and more specifically when all the following conditions are met:

- Services are provided or products are delivered to customers.
- There is clear evidence that an arrangement exists.
- Amounts are fixed or can be determined.
- The Improvement District's ability to collect is reasonably assured.
- There are no significant obligations for future performance.
- The amount of future returns can be reasonably estimated.

(e) **Short term investments** consist of term deposits and guaranteed investment certificates which are readily convertible to cash and subject to insignificant risk of change in fair value, liquidity and credit risk.

(f) **Use of estimates** in the preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenditures during the year. Significant areas of estimation include assumptions used in estimating amortization of tangible capital assets, and provisions for accrued liabilities. Actual results could differ from these estimates.

3. ACCOUNTS RECEIVABLE

	2020	2019
Parcel taxes and water toll revenue and other receivables	\$ -	\$ 821
Accrued interest receivable operating fund	1,291	978
Province of British Columbia	1,765	1,991
Accrued interest receivable reserve fund	<u>3,279</u>	<u>3,138</u>
	<u>\$ 6,335</u>	<u>\$ 6,928</u>

4. PROVINCE OF BRITISH COLUMBIA DEBT

On November 19, 2012 the Improvement District received a \$250,000 Capital Tax Advance from the Province of British Columbia in accordance with Bylaw No. 85, the 2012 Long Term Borrowing Bylaw to purchase a fire truck.

	2020	2019
The Capital Tax Advance is repayable with an annual payment in July of each year (2015 - 2027) in the amount of \$20,352.76 including interest at 2.75%.		
Bylaw No. 85 approves the Province of British Columbia, in accordance with Section 756 of the Local Government Act, to collect the payment directly from the ratepayers within the Improvement District by way of their rural property tax assessments.	<u>\$ 128,007</u>	<u>\$ 144,389</u>

Principal repayments, based on the loan terms and conditions at year end, are as follows:

2021	\$ 15,944
2022	16,382
2023	16,832
2024	17,282
2025	17,782
2026 and subsequent	<u>43,785</u>
	<u>\$ 128,007</u>

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SHIPS POINT IMPROVEMENT DISTRICT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

5. ROYAL BANK OF CANADA LOANS

Bylaw No. 89 authorizes the Improvement District to borrow up to \$2,500,000 to fund its water system infrastructure upgrade.

	2020	2019
Term loan - Royal Bank of Canada, repayable in monthly payment of \$5,043.66 included interest at 3.57%, maturing June 2024.	\$ 733,799	\$ 849,224
Term loan - Royal Bank of Canada, repayable in monthly payments of \$3,575.08 including interest at 4.4%, maturing March 2028.	546,057	624,142
Construction loan - Royal Bank of Canada, repayable at prime plus 0%, to be converted to a fixed interest rate loan to be determined on June 30, 2021.	<u>1,215,764</u>	<u>-</u>
	<u>\$ 2,495,620</u>	<u>\$ 1,473,366</u>

Principal repayments, based on the loan terms and conditions at year end, are as follows:

2021	\$ 54,873
2022	57,003
2023	59,217
2024	61,571
2025	63,827
2026 and subsequent	<u>2,199,129</u>
	<u>\$ 2,495,620</u>

6. TANGIBLE CAPITAL ASSETS

	2020	2019
Buildings	\$ 39,315	\$ 38,749
Equipment	7,041	12,653
Water mains	2,815,813	1,697,772
Wells and casings	47,255	50,271
Fire trucks	160,387	149,385
Land and Right of Ways	47,109	47,109
Computer equipment	<u>91</u>	<u>202</u>
	<u>\$ 3,117,011</u>	<u>\$ 1,996,141</u>

See the Schedule of Tangible Capital Assets on page 10 for additional information.

The auditor's report and notes are an integral part of the consolidated financial statements.

SHIPS POINT IMPROVEMENT DISTRICT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

7. EQUITY IN TANGIBLE CAPITAL ASSETS

Equity in tangible assets represents the net book value of the total capital assets less long term obligations assumed to acquire those assets. The change in consolidated equity in tangible capital assets is as follows:

	2020	2019
Balance beginning	\$ 303,387	\$ 320,732
Operating Fund acquisition of tangible capital assets	18,075	8,403
Capital Reserve Renewal Fund acquisition of tangible capital assets	1,297,774	39,805
Amortization of tangible capital assets	(190,923)	(126,531)
Gain on sale of tangible capital assets	8,122	-
Proceeds on sale of tangible capital assets	12,178	-
Issuance of long term debt	(1,343,336)	-
Reduction in long term debt	<u>337,464</u>	<u>60,978</u>
	<u>\$ 442,741</u>	<u>\$ 303,387</u>

8. ACCUMULATED SURPLUS

The Improvement District segregates accumulated surplus in the following categories:

	2020	2019
Operating Fund	\$ 228,733	\$ 264,762
Capital Reserve Renewal Fund	464,274	616,723
Capital Fund	<u>442,740</u>	<u>303,387</u>
	<u>\$ 1,135,747</u>	<u>\$ 1,184,872</u>

9. CAPITAL RESERVE RENEWAL FUND

These funds are available for the acquisition of tangible capital assets.

	2020	2019
Beginning balance	\$ 616,723	\$ 544,296
Contributions	1,371,700	28,231
Capital Expenditure Fund	172,200	172,200
Interest income	10,024	14,902
Acquisition of tangible capital assets	(1,297,774)	(39,805)
Loans and interest payments	<u>(408,599)</u>	<u>(103,101)</u>
	<u>\$ 464,274</u>	<u>\$ 616,723</u>

The auditor's report and notes are an integral part of the consolidated financial statements.

SHIPS POINT IMPROVEMENT DISTRICT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

10. COMOX VALLEY REGIONAL DISTRICT CONTRIBUTION

	2020	2019
In 2014 the Comox Valley Regional District (CVRD) transferred funds from the Canadian Works Fund to the Improvement District. If after 10 years there has been no change in ownership, the amount will no longer be repayable.	\$ <u>75,000</u>	\$ <u>75,000</u>

11. HONORARIUMS

The seven Trustees of the Improvement District are paid an honorarium of \$400 per year. (2019 - seven at \$400)

	2020	2019
Trustees' honorariums	\$ <u>2,800</u>	\$ <u>2,800</u>

12. COMMITMENTS AND CONTINGENCIES

Ships Point Improvement District has completed the third phase of its water system infrastructure upgrade. Phase I was completed in 2015 and consisted of a new well, construction of a new pumphouse, installation of three variable speed pumps, installation of a sequential controller, a 100 KW standby generator, new watermains from the pumphouse to the manifold at the Tozer Road and Ships Point Road Junction and a cross-over from Tozer Road to Vivian Way. Phase II was substantially completed in 2017 and consisted of a cross-over from Tozer Road to Wentle Way, a replacement of the watermain pipe and hydrants on Tozer Road, Michael Place, Park Road and the south loop of Baynes Drive, and service connections with meter manifolds for each residence on each street. Phase III was completed in 2020 and included the replacement of watermain and fire hydrants on most of Ships Point Road, the northern loop of Baynes Drive, Vivian Way, Victor Lane and Wentle Way; as well as the installation of new water service connections at each residence on each street.

Ships Point Improvement District maintains capital reserves for future upgrades to its water infrastructure system as well as for the repayment of debt related to the water infrastructure system upgrade.

13. SUBSEQUENT EVENTS

The ongoing Covid-19 pandemic has a significant impact on the global economy and the industry. The level of the decline in revenues and profits is yet unpredictable. There has been no impact on current year financial results.

The auditor's report and notes are an integral part of the consolidated financial statements.

SHIPS POINT IMPROVEMENT DISTRICT

SCHEDULE OF TANGIBLE CAPITAL ASSETS

YEAR ENDED DECEMBER 31, 2020

	Buildings	Equipment	Water mains	Wells and casings	Fire trucks	Land and Right of ways	Computer equipment	2020	2019
Cost									
Beginning balance	\$ 105,804	\$ 126,077	\$2,327,832	\$ 123,273	\$ 230,832	\$ 47,109	\$ 2,419	\$2,963,346	\$2,915,138
Additions	3,075	-	1,297,774	-	15,000	-	-	1,315,849	48,208
Disposals	<u>-</u>	<u>(4,815)</u>	<u>-</u>	<u>-</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>(5,815)</u>	<u>-</u>
Ending balance	<u>108,879</u>	<u>121,262</u>	<u>3,625,606</u>	<u>123,273</u>	<u>244,832</u>	<u>47,109</u>	<u>2,419</u>	<u>4,273,380</u>	<u>2,963,346</u>
Accumulated amortization									
Balance beginning	67,055	113,424	630,060	73,002	81,447	-	2,217	967,205	840,674
Amortization expense	2,509	1,760	179,733	3,016	3,794	-	111	190,923	126,531
Effect of disposals and write down	<u>-</u>	<u>(963)</u>	<u>-</u>	<u>-</u>	<u>(796)</u>	<u>-</u>	<u>-</u>	<u>(1,759)</u>	<u>-</u>
Ending balance	<u>69,564</u>	<u>114,221</u>	<u>809,793</u>	<u>76,018</u>	<u>84,445</u>	<u>-</u>	<u>2,328</u>	<u>1,156,369</u>	<u>967,205</u>
Net book value	<u>\$ 39,315</u>	<u>\$ 7,041</u>	<u>\$2,815,813</u>	<u>\$ 47,255</u>	<u>\$ 160,387</u>	<u>\$ 47,109</u>	<u>\$ 91</u>	<u>\$3,117,011</u>	<u>\$1,996,141</u>

The auditor's report and notes are an integral part of the consolidated financial statements.