

SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

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, 2017, and the consolidated statement of operations, consolidated statement of changes in net financial assets, and consolidated statement of cash flows for the year ended December 31, 2017 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 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.

Auditor's Responsibility

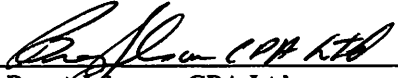
My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ships Point Improvement District as at December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017 in accordance with Canadian Public Sector Accounting Standards excluding the Public Sector 4200 series.


Brent Johnson, CPA Ltd.
Chartered Professional Accountant

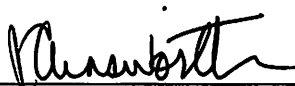
SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

	2017	2016
Financial assets		
Cash and short term investments	\$ 1,054,567	\$ 1,011,855
Accounts receivable (Note 3)	6,758	6,813
Due from government agency	<u>67,885</u>	<u>7,630</u>
	<u>1,129,210</u>	<u>1,026,298</u>
Liabilities		
Accounts payable and accrued liabilities	137,537	17,566
Due to government agency	4,069	663
Province of British Columbia debt (Note 4)	175,849	190,951
Royal Bank of Canada loan (Note 5)	1,769,511	935,524
Comox Valley Regional District contribution (Note 9)	<u>75,000</u>	<u>75,000</u>
	<u>2,161,966</u>	<u>1,219,704</u>
Net financial assets	<u>(1,032,756)</u>	<u>(193,406)</u>
Non-financial assets		
Tangible capital assets (Note 6)	2,192,121	1,177,125
Supply inventory	6,433	8,389
Prepaid expense	<u>12,069</u>	<u>11,254</u>
	<u>2,210,623</u>	<u>1,196,768</u>
Accumulated surplus - Page 2	<u>\$ 1,177,867</u>	<u>\$ 1,003,362</u>
COMMITMENTS AND CONTINGENCIES (Note 11)		

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, 2017

	2017 Operating Budget	2017	2016
REVENUE			
Parcel taxes	\$ 61,456	\$ 61,428	\$ 54,767
Capital Expenditure Fund	-	143,500	129,100
Sale of services	77,470	81,992	76,349
Interest income	3,500	7,581	10,140
Province of British Columbia (Note 4)	-	20,353	20,353
Other income	3,300	1,053	905
Canada 150 grant	-	197,754	-
	<u>145,726</u>	<u>513,661</u>	<u>291,614</u>
EXPENSES			
Amortization of tangible capital assets	-	139,760	71,346
Insurance	19,700	19,777	20,021
Interest – Province of British Columbia (Note 4)	-	5,251	5,655
Interest - Royal Bank of Canada (Note 5)	-	42,270	34,188
Office expenses	9,250	8,549	7,425
Professional fees	9,000	10,261	6,696
Repairs and maintenance	29,200	25,325	18,481
Travel and training	9,500	6,779	6,864
Utilities	18,700	15,025	14,534
Wages and benefits	50,500	66,159	42,265
	<u>145,850</u>	<u>339,156</u>	<u>227,475</u>
Annual surplus	124	174,505	64,139
Accumulated surplus			
Beginning balance	<u>1,003,362</u>	<u>1,003,362</u>	<u>939,223</u>
Ending balance - Page 1	\$ <u>1,003,486</u>	\$ <u>1,177,867</u>	\$ <u>1,003,362</u>

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SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

YEAR ENDED DECEMBER 31, 2017

	2017 Budget	2017	2016
ANNUAL SURPLUS	\$ 124	\$ 174,505	\$ 64,139
Acquisition of tangible capital assets	-	(1,154,756)	(85,145)
Amortization of tangible capital assets	-	139,760	71,346
Proceeds on sale of tangible capital assets	-	-	1,025
	<u>124</u>	<u>(840,491)</u>	<u>51,365</u>
Consumption (acquisition) of supply inventory	-	1,956	(946)
Use (acquisition) of prepaid expense	-	(815)	225
	<u>-</u>	<u>1,141</u>	<u>(721)</u>
Increase in net financial assets	124	(839,350)	50,644
NET FINANCIAL ASSETS			
Beginning balance	<u>(193,406)</u>	<u>(193,406)</u>	<u>(244,050)</u>
Ending balance	<u>\$ (193,282)</u>	<u>\$ (1,032,756)</u>	<u>\$ (193,406)</u>

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SHIPS POINT IMPROVEMENT DISTRICT

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	2017	2016
Cash provided by (used in)		
Operating transactions		
Annual surplus	\$ 174,505	\$ 64,139
Amortization of tangible capital assets	<u>139,760</u>	<u>71,346</u>
	<u>314,265</u>	<u>135,485</u>
Changes in non-cash operating balances		
Accounts receivable	55	(839)
Due from government agency	(60,256)	(5,546)
Accounts payable and accrued liabilities	119,972	9,051
Due to government agency	3,405	86
Supply inventory	1,956	(946)
Prepaid expenses	<u>(815)</u>	<u>225</u>
	<u>64,317</u>	<u>2,031</u>
Net Cash Provided by Operating Activities	378,582	137,516
Financing transactions		
Issuance of long term debt	861,660	-
Reduction in long term debt	<u>(42,774)</u>	<u>(41,034)</u>
	<u>818,886</u>	<u>(41,034)</u>
Capital transactions		
Acquisition of tangible capital assets	(1,154,756)	(85,145)
Proceeds on sale of tangible capital assets	<u>-</u>	<u>1,025</u>
	<u>(1,154,756)</u>	<u>(84,120)</u>
Increase in cash and cash equivalents	42,712	12,362
CASH AND SHORT TERM INVESTMENTS		
Beginning balance	<u>1,011,855</u>	<u>999,493</u>
Ending balance	<u>\$ 1,054,567</u>	<u>\$ 1,011,855</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, 2017

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
Trucks	30% declining balance
Fire trucks	20 year straight line basis
Computer equipment	55% declining balance

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, 2017

(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

	2017	2016
Parcel taxes and water toll revenue and other receivables	\$ 2,352	\$ 1,872
Accrued interest receivable	2,391	2,740
Province of British Columbia	<u>2,015</u>	<u>2,201</u>
	<u>\$ 6,758</u>	<u>\$ 6,813</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 the fire truck.

	2017	2016
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>\$ 175,849</u>	<u>\$ 190,951</u>

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

2018	\$ 15,517
2019	15,944
2020	16,382
2021	16,832
2022	17,282
2023 and subsequent	<u>93,892</u>
	<u>\$ 175,849</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, 2017

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.

	2017	2016
Term loan - Royal Bank of Canada, repayable in monthly payment of \$5,043.66 included interest at 3.57%.	\$ 907,851	\$ 935,524
Term loan - Royal Bank of Canada, interest only with monthly payments at the Royal Bank of Canada prime lending rate, currently at 3.20%, due April 30, 2018.	<u>861,660</u>	<u>-</u>
	<u>\$ 1,769,511</u>	<u>\$ 935,524</u>

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

2018	\$ 888,750
2019	28,060
2020	29,064
2021	30,104
2022	31,181
2023 and subsequent	<u>762,352</u>
	<u>\$ 1,769,511</u>

6. TANGIBLE CAPITAL ASSETS

	2017	2016
Buildings	\$ 43,854	\$ 46,654
Equipment	7,318	7,095
Water mains	1,875,735	842,760
Wells and casings	56,894	60,526
Fire trucks	161,211	172,981
Land and Right of Ways	47,109	16,500
Statutory right of way	<u>-</u>	<u>30,609</u>
	<u>\$ 2,192,121</u>	<u>\$ 1,177,125</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

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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:

	2017	2016
Balance beginning	\$ (24,350)	\$ (78,158)
Acquisition of tangible capital assets	1,154,756	85,145
Amortization of tangible capital assets	(139,760)	(71,346)
Proceeds on sale of tangible capital assets	-	(1,025)
Issuance of long term debt	(861,660)	-
Reduction in long term debt	<u>42,775</u>	<u>41,034</u>
	<u>\$ 171,761</u>	<u>\$ (24,350)</u>

8. ACCUMULATED SURPLUS

The Improvement District segregates accumulated surplus in the following categories:

	2017	2016
Operating and Reserve Fund	\$ 1,006,106	\$ 1,027,712
Capital Fund	<u>171,761</u>	<u>(24,350)</u>
	<u>\$ 1,177,867</u>	<u>\$ 1,003,362</u>

9. COMOX VALLEY REGIONAL DISTRICT CONTRIBUTION

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 be no longer be repayable.

	2017	2016
	<u>\$ 75,000</u>	<u>\$ 75,000</u>

10. RELATED PARTIES

The seven Trustees of the Improvement District are paid an honorarium of \$400 per year. (2016 - seven at \$300)

	2017	2016
Trustees' honorariums	<u>\$ 2,800</u>	<u>\$ 2,100</u>

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SHIPS POINT IMPROVEMENT DISTRICT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

11. COMMITMENTS AND CONTINGENCIES

Ships Point Improvement District is currently in the process of upgrading the water system infrastructure. Phase I that was completed in January 2015 consisted of a new well, construction of a new pumphouse, installation of three new variable turbine pumps, installation of a sequential controller, a 100 KW standby generator, new mains from the pump house to the manifold at the Tozer Road and Ships Point Road junction and a cross over from Tozer Road to Vivian Way. Phase II consists of a crossover from Tozer Road to Wente Way, a replacement of the main pipe on Tozer Road, Michael Place, South loop of Baynes Drive and Park Road, new hydrants and meter manifolds for each residence. The design of Phase II was completed in 2016 and the project completed in October 2017. Ships Point Improvement District has received a grant of \$75,000 from the Comox Valley Regional District and has been awarded a grant of \$200,000 from the 2017 Canada 150 program for Phase II of which \$197,754 has been received and the balance of \$2,246 has been applied for. Ships Point Improvement District maintains future capital renewal reserves in the operating and reserve fund available for future upgrades of the water system infrastructure project.

12. SUBSEQUENT EVENTS

On March 6, 2018 Ships Point Improvement District restructured the Royal Bank of Canada term loan of \$861,660 due on April 30, 2018. Ships Point Improvement District repaid \$211,660 of the loan from existing funds and converted the remaining \$650,000 into a 25 year loan repayable in monthly installments of \$ 3,575.08 including principal and interest of 4.4% per annum for a term of 10 years maturing March 2028.

There is a deficiencies holdback in place of \$17,100 on the Potable Water System upgrade Phases 2 & 3. The holdback will be released once the deficiencies have been completed in the Spring of 2018.

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, 2017

	Buildings	Equipment	Water mains	Wells and casings	Fire trucks	Land and Right of ways	Statutory right of way	Computer equipment	2017	2016
Cost										
Beginning balance	\$ 105,804	\$ 113,661	\$ 1,134,689	\$ 123,273	\$ 230,832	\$ 16,500	\$ 30,609	\$ 1,419	\$ 1,756,787	\$ 1,677,667
Additions	-	2,053	1,152,703	-	-	30,609	(30,609)	-	1,154,756	85,145
Disposals	-	-	-	-	-	-	-	-	-	(6,025)
Ending balance	<u>105,804</u>	<u>115,714</u>	<u>2,287,392</u>	<u>123,273</u>	<u>230,832</u>	<u>47,109</u>	<u>-</u>	<u>1,419</u>	<u>2,911,543</u>	<u>1,756,787</u>
Accumulated amortization										
Balance beginning	59,150	106,566	291,929	62,747	57,851	-	-	1,419	579,662	513,316
Amortization expense	<u>2,800</u>	<u>1,830</u>	<u>119,728</u>	<u>3,632</u>	<u>11,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,760</u>	<u>71,346</u>
Effect of disposals and write down	-	-	-	-	-	-	-	-	-	(5,000)
Ending balance	<u>61,950</u>	<u>108,396</u>	<u>411,657</u>	<u>66,379</u>	<u>69,621</u>	<u>-</u>	<u>-</u>	<u>1,419</u>	<u>719,422</u>	<u>579,662</u>
Net book value	<u>\$ 43,854</u>	<u>\$ 7,318</u>	<u>\$ 1,875,735</u>	<u>\$ 56,894</u>	<u>\$ 161,211</u>	<u>\$ 47,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,192,121</u>	<u>\$ 1,177,125</u>

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