

DRAFT - For Discussion Purposes Only

Mill Bay Waterworks District
Consolidated Financial Statements
December 31, 2022

Management's Responsibility

To the Board of Trustees of the Mill Bay Waterworks District:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Trustees is composed entirely of Trustees who are neither management nor employees of the District. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to both the Board and management to discuss their audit findings.

April 25, 2023

Administrator

Independent Auditor's Report

To the Board of Trustees of the Mill Bay Waterworks District:

Opinion

We have audited the consolidated financial statements of the Mill Bay Waterworks District (the "District"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of operations and accumulated surplus, change in net financial assets, cash flows and the related schedules for the year then ended, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the District as at December 31, 2022, and the results of its consolidated operations, changes in its net financial assets and its consolidated 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the District in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 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 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our 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 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 these consolidated 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 consolidated 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
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- 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 auditor's report to the related disclosures in the consolidated 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 auditor's 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 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.

We 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.

Nanaimo, British Columbia

April 25, 2023

Chartered Professional Accountants

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Mill Bay Waterworks District
Consolidated Statement of Financial Position

As at December 31, 2022

	2022	2021
Financial Assets		
Cash and cash equivalents	2,819,833	2,224,262
Accounts receivable (Note 3)	271,350	163,931
	3,091,183	2,388,193
Financial Liabilities		
Accounts payable and accrued liabilities (Note 4)	61,017	39,247
Security deposits	104,393	-
Deferred revenue	32,983	33,656
	198,393	72,903
Net Financial Assets	2,892,790	2,315,290
Non-Financial Assets		
Prepaid expenses	29,638	16,566
Inventory	29,545	26,042
Tangible capital assets (Schedule 1)	5,017,589	5,119,777
	5,076,772	5,162,385
Accumulated Surplus (Schedule 2)	7,969,562	7,477,675

Approved on behalf of the Board of Trustees

Trustee

Trustee

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

Mill Bay Waterworks District
Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31, 2022

	<i>Budget (Note 7)</i>	2022	2021
Revenues			
Sale of services	795,209	876,228	715,857
Parcel taxes	333,724	324,017	250,226
Capital expenditure charges	-	36,696	-
Interest income	1,050	35,657	2,624
Other income	18,700	14,885	27,530
Penalties and interest	20,000	11,066	19,458
Meter installation and connections	3,600	6,395	2,655
	1,172,283	1,304,944	1,018,350
Expenses			
Administration (Schedule 3)	578,280	535,129	532,018
Operating (Schedule 3)	197,740	262,216	346,934
Write-off of capital project	-	15,712	-
	776,020	813,057	878,952
Annual surplus	396,263	491,887	139,398
Accumulated surplus - beginning of year	7,477,675	7,477,675	7,338,277
Accumulated surplus - end of year	7,873,938	7,969,562	7,477,675

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

Mill Bay Waterworks District
Consolidated Statement of Change in Net Financial Assets

For the year ended December 31, 2022

	Budget (Note 7)	2022	2021
Annual surplus	396,263	491,887	139,398
Acquisition of tangible capital assets	(37,000)	(59,082)	-
Amortization	-	145,558	148,578
Write-off of capital project	-	15,712	-
Increase in inventory	-	(3,503)	(3,268)
(Increase) decrease in prepaid expenses	-	(13,072)	1,418
Change in net financial assets	359,263	577,500	286,126
Net financial assets, beginning of year	2,315,290	2,315,290	2,029,164
Net financial assets, end of year	2,674,553	2,892,790	2,315,290

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

Mill Bay Waterworks District Consolidated Statement of Cash Flows

For the year ended December 31, 2022

	2022	2021
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus	491,887	139,398
Write-down of capital project	15,712	-
Amortization	145,558	148,578
	653,157	287,976
Changes in working capital		
Accounts receivable	(107,419)	(2,537)
Prepaid expenses	(13,072)	1,418
Inventory	(3,503)	(3,268)
Accounts payable and accrued liabilities	21,770	(30,020)
Security deposits	104,393	-
Deferred revenue	(673)	15,437
	654,653	269,006
Capital activities		
Acquisition of tangible capital assets	(59,082)	-
Investing activities		
Net change in portfolio investments	-	-
Increase in cash resources	595,571	269,006
Cash resources, beginning of year	2,224,262	1,955,256
Cash resources, end of year	2,819,833	2,224,262

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

Mill Bay Waterworks District

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

1. Incorporation and commencement of operations

The Mill Bay Waterworks District (the "District") was incorporated on August 6, 1962 under the Society Act of the Province of British Columbia and operates under the Local Government Act of British Columbia. The principal activities of the District are to provide water service to the residents of the Mill Bay and to maintain and repair all wells and water lines associated with that service. Under Section 149(1)(c) of the Income Tax Act, the District is exempt from taxation.

2. Significant accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with the recommendations of the Public Sector Accounting Board of CPA Canada. In accordance with these recommendations, the District has implemented the consolidation of all funds. The consolidated financial statements reflect the removal of internal transactions and balances.

Revenue recognition

Sale of services revenue for water services are recognized on a quarterly basis once service has been provided. Parcel taxes are recognized upon issuance of tax notices for the fiscal year. Interest and other income are recognized as revenue as earned on an accrual basis. Capital expenditure charge ("CEC") fees are recorded as revenue when amounts are determinable and collectability is assured. Assets contributed by developers are recognized as revenue when ownership transfers to the District.

Cash and cash equivalents

Cash and cash equivalents include cash, money market investments and short-term deposits with maturities of one to three months.

Inventory

Inventory of supplies are recorded at the lower of cost and replacement cost. Cost is determined using the specific identification method.

Liability for contaminated sites

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the District is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activities and is reduced by expected net recoveries based on information available at December 31, 2022.

At each financial reporting date, the District reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The District continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made. As at December 31, 2022 the District has not recorded any liability for contaminated sites as no sites exist.

Mill Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

2. Significant accounting policies *(continued from previous page)*

Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of tangible capital assets.

Liabilities for contaminated sites are estimated based on the best information available regarding potentially contaminated sites that the District is responsible for.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in surplus in the periods in which they become known.

Tangible capital assets

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

	Rate
Water Distribution - Fixtures	50 to 60 years
Water Distribution - Pipework	80 years
Water Sources	4 to 80 years
Building, Furnishings, Fixtures	5 to 50 years

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt. Assets under construction are not amortized until put into use.

Fund accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the District, the accounts are maintained on a fund accounting basis. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the contributors or in accordance with the directives issued by the Board of Trustees.

Four funds are maintained: Operating Fund, Capital Fund, Restricted Renewal Reserve Fund and Restricted Capital Expense Charge Reserve Fund ("CEC").

The Operating Fund is used to account for all revenues and expenses related to general and ancillary operations of the District.

The Capital Fund is used to account for all tangible capital assets of the District and to present the flow of funds related to their acquisition and disposal, unexpended capital resources and debt commitments.

The Restricted Renewal Reserve Fund consists of funds established by the Board of the District, by bylaw 102, to be used for expenditures related to the upgrading or addition of Waterworks tangible capital assets. These funds, and interest earned thereon, must only be invested and disbursed by bylaw passed by the Board of the District.

The Restricted Capital Expense Charge Reserve Fund consists of funds established by the Board of the District, by bylaw 255, to be used for expenditures related to the upgrading, replacement or renewal of existing tangible capital assets. The funds can only be expended with the Board's approval.

Mill Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

3. Accounts receivable

	2022	2021
Trade receivables	246,490	157,253
GST receivable	24,860	6,678
	271,350	163,931

4. Accounts payable and accrued liabilities

	2022	2021
Trade payables	54,872	26,197
Wages and vacation payable	4,970	11,395
Government remittances	1,175	1,655
	61,017	39,247

5. Financial instruments

The District, as part of its operations, carries a number of financial instruments. The District's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. It is management's opinion that the District is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

6. Environmental liabilities

The District makes every reasonable effort to comply with all environmental regulations that apply to its operations. These regulations may require future expenditures to meet applicable standards. Amounts required to meet these obligations will be charged to operations or set aside as future reserves when they can be reasonably estimated.

7. Budget figures

Budget figures represent the budget adopted by the Board of Trustees on October 12, 2021. The budgeted surplus agrees to the surplus for the year as shown on the Consolidated Statement of Operations and Accumulated Surplus. A reconciliation of these amounts is as follows:

Budget surplus as approved by the Board of Trustees	89,039
Transfer to reserves	333,724
Transfer from reserves	(26,500)
	396,263
Budgeted annual surplus, as per the Consolidated Statement of Operations and Accumulated Surplus	396,263

Mill Bay Waterworks District
Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

8. Recent Accounting Pronouncements

PS 3280 *Asset Retirement Obligations*, issued August 2018, establishes standards for recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets and is effective for the District as of January 1, 2023. A liability will be recognized when, as at the financial reporting date:

- a) There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- b) The past transaction or event giving rise to the liability has occurred;
- c) It is expected that future economic benefits will be given up; and
- d) A reasonable estimate of the amount can be made.

Liabilities are recognized for statutory, contractual or legal obligations associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related tangible capital asset. In subsequent periods, the liability is adjusted for accretion and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and accretion expense is included in the Statement of Operations.

Management is in the process of assessing the impact of adopting this standard on the District's financial results.

9. Comparative Figures

Certain comparative figures have been restated to conform to the current year's presentation.

Mill Bay Waterworks District
Schedule 1 - Consolidated Schedule of Tangible Capital Assets

As at December 31, 2022

	<i>Capital & Renewal Fund - WIP</i>	<i>Water Distribution - Fixtures</i>	<i>Water Distribution - Pipework</i>	<i>Water Sources</i>	<i>Building, Furnishings, Fixtures</i>	<i>Land</i>	<i>2022</i>	<i>2021</i>
Cost								
Balance, beginning of year	115,527	1,175,125	3,205,889	3,185,395	448,784	39,183	8,169,903	8,169,903
Additions during the year	59,082	-	-	-	-	-	59,082	-
Transfers and disposals during the year	(15,712)	-	-	-	-	-	(15,712)	-
Balance, end of year	158,897	1,175,125	3,205,889	3,185,395	448,784	39,183	8,213,273	8,169,903
Accumulated amortization								
Balance, beginning of year	-	453,959	765,515	1,504,746	325,906	-	3,050,126	2,901,548
Amortization	-	21,170	40,074	69,469	14,845	-	145,558	148,578
Accumulated amortization on disposals	-	-	-	-	-	-	-	-
Balance, end of year	-	475,129	805,589	1,574,215	340,751	-	3,195,684	3,050,126
Net book value of tangible capital assets	158,897	699,996	2,400,300	1,611,180	108,033	39,183	5,017,589	5,119,777
Net book value of tangible capital assets - 2021	115,527	721,166	2,440,374	1,680,649	122,878	39,183	5,119,777	

Mill Bay Waterworks District
Schedule 2 - Consolidated Schedule of Fund Balances

For the year ended December 31, 2022

	<i>Operating</i>	<i>Capital</i>	<i>Restricted CEC Reserve</i>	<i>Restricted Renewal Reserve</i>	2022	2021
Balance, beginning of year	1,004,175	5,119,777	125,407	1,228,316	7,477,675	7,338,277
Income	1,278,641	-	4,760	21,543	1,304,944	1,018,350
Expenses	(651,787)	(161,270)	-	-	(813,057)	(878,952)
Transfer for capital purchases	(22,500)	59,082	-	(36,582)	-	-
Transfer of capital expenditure charges	(36,696)	-	36,696	-	-	-
Transfer of parcel taxes	(333,724)	-	-	333,724	-	-
Balance, end of year	1,238,109	5,017,589	166,863	1,547,001	7,969,562	7,477,675

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Mill Bay Waterworks District
Schedule 3 - Consolidated Schedule of Operating and Administration Expenses

For the year ended December 31, 2022

	<i>Budget (Note 7)</i>	2022	2021
Operating expenses			
Amortization	-	145,558	148,578
Chlorination costs	8,420	12,350	8,555
Detention pond	-	-	-
Engineering services	38,000	32,592	33,346
Laboratory and testing services	8,500	7,231	4,669
Materials, rentals and subcontracts	10,000	8,247	2,957
Power charges	45,550	39,330	52,266
Repairs and maintenance	87,270	16,908	96,563
Total operating expenses	197,740	262,216	346,934
Administration expenses			
Audit and legal fees	17,000	41,502	15,596
Bank charges	250	426	178
Consulting fees	46,500	21,073	45,423
Insurance	25,590	26,916	25,991
Office and miscellaneous	49,080	54,065	75,585
Salaries, contracts and payroll costs	406,620	355,270	335,517
Training	5,000	3,864	3,799
Travel	1,540	8,110	6,156
Trustees' remuneration	20,000	19,383	20,146
Utilities and telephone	6,700	4,520	3,627
Total administration expenses	578,280	535,129	532,018