

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

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YEAR ENDED DECEMBER 31, 2018

Independent Auditors' Report

Statement of Financial Position

Statement of Operations and Joint Venturers' Accumulated Surplus

Notes to Financial Statements



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INDEPENDENT AUDITORS' REPORT

To the Management Board of Englishman River Water Service Joint Venture

Opinion

We have audited the financial statements of Englishman River Water Service Joint Venture (the Entity), which comprise:

- the statement of financial position as at December 31, 2018;
- the statement of operations and joint venturers' accumulated surplus 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 as at and for the year ended December 31, 2018 of the Entity are prepared, in all material respects, in accordance with the financial reporting framework described in note 1 in the financial statements.

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 Entity 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.



Emphasis of Matter – Financial Reporting Framework

We draw attention to note 1 in the financial statements, which describes the applicable financial reporting framework.

The financial statements are prepared to comply with the reporting provisions of the joint venture agreement dated July 1, 2016 between Regional District of Nanaimo and City of Parksville.

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with the financial reporting framework described in Note 1 in the financial statements ; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the financial statements in the circumstances, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- 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

Victoria, Canada
September 5, 2019

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u> (Recast-Note 7)
FINANCIAL ASSETS		
Grants Receivable (note 3)	\$ 3,127,772	\$ 5,449,669
FINANCIAL LIABILITIES		
Due to Joint Venturers (note 4)	<u>3,127,772</u>	<u>5,449,669</u>
NET FINANCIAL ASSETS	<u>-</u>	<u>-</u>
NON-FINANCIAL ASSETS		
Tangible Capital Assets (note 5)	<u>33,855,482</u>	<u>20,716,122</u>
JOINT VENTURERS' ACCUMULATED SURPLUS (note 6)	<u>\$ 33,855,482</u>	<u>\$ 20,716,122</u>

Approved:

R. Butterworth

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

STATEMENT OF OPERATIONS AND JOINT VENTURERS' ACCUMULATED SURPLUS

YEAR ENDED DECEMBER 31, 2018

	<u>City of Parksville</u>	<u>Regional District of Nanaimo</u>	<u>Town of Qualicum Beach</u>	<u>2018 Total</u>	<u>2017 Total</u> <small>(Recast-Note 7)</small>
ACCUMULATED SURPLUS PRIOR TO REALLOCATION AT BEGINNING OF YEAR	\$ 16,268,999	\$ 4,348,399	\$ 98,724	\$ 20,716,122	\$ 6,083,174
Expenses					
Administration	<u>12,364</u>	<u>4,344</u>	<u>-</u>	<u>16,708</u>	<u>6,470</u>
	16,256,635	4,344,055	98,724	20,699,414	6,076,704
Add: Capital grant (note 2)	3,810,166	682,063	-	4,492,229	6,464,168
Add: Joint venturers' contributions	6,550,508	2,113,331	-	8,663,839	8,175,250
	<u>26,617,309</u>	<u>7,139,449</u>	<u>98,724</u>	<u>33,855,482</u>	<u>20,716,122</u>
Accumulated surplus prior to reallocation at end of year					
Town of Qualicum Beach contribution reallocated (note 5)	<u>73,056</u>	<u>25,668</u>	<u>(98,724)</u>	<u>-</u>	<u>-</u>
ACCUMULATED SURPLUS AT END OF YEAR (note 5)	<u>\$ 26,690,365</u>	<u>\$ 7,165,117</u>	<u>\$ -</u>	<u>\$ 33,855,482</u>	<u>\$ 20,716,122</u>

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Englishman River Water Service is a joint venture of the City of Parksville and the Regional District of Nanaimo. The purpose of the joint venture is the design, construction, installation, operation, maintenance and replacement of bulk water supply and treatment facilities, which is to supply water within the boundaries of Parksville and the existing local water service areas in the Regional District of Nanaimo.

The joint venturers entered into an agreement on July 10, 2011. A new agreement was signed by the venturers on July 1, 2016.

The costs of tangible capital assets, administrative expenses and maintenance expenses of the bulk water system are apportioned as follows:

City of Parksville	74.0%
Regional District of Nanaimo	26.0%

Operational costs are shared between the City of Parksville and the Regional District of Nanaimo based on their share of water used from the Englishman River.

1. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with the Joint Venture Agreement between the Regional District of Nanaimo and the City of Parksville dated July 1, 2016.

Amounts payable by ERWS are presented on a net basis with the due to/from Joint Venturers. Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Amortization is not recorded on tangible capital assets of the Joint Venture as the Joint Venturers each record amortization on their share of the tangible capital assets in their own consolidated financial statements. During the periods presented, there are no tangible capital assets subject to amortization by the Joint Venture or Joint Venturers.

These financial statements are prepared to comply with the reporting provisions of the Joint Venture Agreement between the Regional District of Nanaimo and the City of Parksville dated July 1, 2016. As a result, the financial statements may not be suitable for another purpose.

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

2. CAPITAL GRANTS

In March 2016 the Province of BC signed an agreement (Project # N20002) with the City of Parksville to provide grant funding for the Water Treatment Plant project from the New Building Canada Fund-Small Communities Fund grant program. The funding is for the design and construction of a new Water Intake, Water Treatment Plant and other related works for the Englishman River Water Service. The grant is not to exceed the lesser of \$6,000,000 and two thirds of the eligible costs incurred between June 9, 2015 and March 31, 2020. This grant is allocated to the Venturers' based on their ownership share of the project.

In March 2017 the Province of BC signed an agreement (Project # C40145) with the City of Parksville to provide grant funding for the Drinking Water Supply Transmission Mains and Secondary Membrane Water Treatment from the Clean Water and Wastewater Fund grant program. The funding is for the design and construction of new water transmission mains, backwash water treatment, sand separators and other related works for the Englishman River Water Service. The grant is not to exceed the lesser of \$6,063,128 and 83% of the eligible costs incurred between April 1, 2016 and March 31, 2019. The majority of this grant relates to works that are funded entirely by the City of Parksville.

	City of Parksville	Regional District of Nanaimo	Total
<u>2018 Grant Allocation</u>			
Grant Project # N20002	\$ 931,363	\$ 327,235	\$ 1,258,598
Grant Project # C40145	2,878,803	354,828	3,233,631
	<u>\$ 3,810,166</u>	<u>\$ 682,063</u>	<u>\$ 4,492,229</u>
<u>2017 Grant Allocation</u>			
Grant Project # N20002	\$ 2,895,287	\$ 1,017,263	\$ 3,912,550
Grant Project # C40145	2,551,618	-	2,551,618
	<u>\$ 5,446,905</u>	<u>\$ 1,017,263</u>	<u>\$ 6,464,168</u>

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

3. GRANTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Grant Project # N20002	\$ 1,617,220	\$ 3,912,550
Grant Project # C40145	<u>1,510,552</u>	<u>1,537,119</u>
	<u>\$ 3,127,772</u>	<u>\$ 5,449,669</u>

4. DUE TO JOINT VENTURERS

	<u>2018</u>	<u>2017</u>
Due to City of Parksville	\$ 3,094,607	\$ 6,420,610
Due to (from) Regional District of Nanaimo	<u>33,165</u>	<u>(970,941)</u>
	<u>\$ 3,127,772</u>	<u>\$ 5,449,669</u>

5. TANGIBLE CAPITAL ASSETS

	<u>Cost</u>	
	<u>2018</u>	<u>2017</u>
Capital works in progress		
Aquifer Storage and Recovery	\$ 323,527	\$ 323,527
River Intake	8,649,956	6,790,590
Water Treatment Plant	17,378,896	8,679,434
Joint Transmission Line	1,097,572	921,596
Springwood Transmission Line	<u>6,405,531</u>	<u>4,000,975</u>
	<u>\$ 33,855,482</u>	<u>\$ 20,716,122</u>

ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

6. ACCUMULATED SURPLUS

Accumulated surplus includes equity in tangible capital assets.

	Equity in Tangible Capital Assets	Allocation from Town of Qualicum Beach	2018	2017 (Recast-Note 7)
City of Parksville	\$26,617,309	\$ 73,056	\$ 26,690,365	\$ 16,342,055
Regional District of Nanaimo	7,139,449	25,668	\$ 7,165,117	4,374,067
	<u>\$33,756,758</u>	<u>\$ 98,724</u>	<u>\$ 33,855,482</u>	<u>\$ 20,716,122</u>

The Town of Qualicum Beach made a contribution of \$98,724 to the planning costs of the water intake and treatment facility. Subsequent to their contribution, the Town of Qualicum Beach chose to discontinue their participation in the water intake and treatment facility. The costs associated with the planning of the water intake and treatment facility were transferred to the Englishman River Water Services Joint Venture. As the Town of Qualicum Beach is not an equity participant in the Englishman River Water Service Joint Venture, the contribution by the Town of Qualicum Beach has been allocated to the City of Parksville and Regional District of Nanaimo based on their participating interests. The City of Parksville and Regional District of Nanaimo have agreed that the contribution may be applied against the cost of buying-in to the joint venture should the Town of Qualicum Beach choose to participate in the venture in the future.

7. COMPARATIVE INFORMATION

The 2017 accumulated surplus was recast to present the Due to/from Joint Venturers as a Payable to ERWS.