



**ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE  
MANAGEMENT BOARD REGULAR MEETING  
AGENDA**

**Thursday, September 5, 2019**

**9:30 A.M.**

**Parksville Community and Conference Centre  
131 Jensen Avenue East**

**Pages**

- 1. CALL TO ORDER**
- 2. APPROVAL OF THE AGENDA**

That the agenda be approved as presented.
- 3. ADOPTION OF MINUTES**
  - 3.1 Englishman River Water Service Management Board Meeting - February 6, 2019** 3

That the minutes of the Englishman River Water Service Management Board meeting held February 6, 2019, be adopted.
- 4. INVITED PRESENTATIONS**
  - 4.1 Lenora Lee, KPMG, re. Englishman River Water Service Joint Venture Draft Audited Financial Statements Year Ended December 31, 2018** 6

That the Englishman River Water Service Draft Audited Financial Statements be received and approved.
- 5. DELEGATIONS**
- 6. CORRESPONDENCE**
- 7. UNFINISHED BUSINESS**
- 8. REPORTS**
  - 8.1 Draft Audit Report from KPMG** 14

- 8.2 **Audit Findings Report from KPMG** 17
- 8.3 **Englishman River Water Service, Contract 1 and Contract 2 Project Status**  
City of Parksville staff to provide verbal report.
- 8.4 **Englishman River Water Service Projects - Cumulative Project Accounting**  
City of Parksville staff to provide verbal report.
- 8.5 **Englishman River Water Service, Contract 1 Project Update and Budget Increase Request** 20

9. **BUSINESS ARISING FROM DELEGATIONS**

10. **NEW BUSINESS**

11. **IN CAMERA**

That the Board proceed to an In Camera meeting pursuant to the following sections of the *Community Charter* to discuss:

- 90 (1)(i) the receipt of advice that is subject to solicitor-client privilege, including communications necessary for that purpose;
- 90 (1)(k) negotiations and related discussions respecting the proposed provision of a municipal service that are at their preliminary stages and that, in the view of the council, could reasonably be expected to harm the interests of the municipality if they were held in public.

12. **ADJOURNMENT**

**MINUTES OF THE ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE MEETING OF  
THE MANAGEMENT BOARD MEETING**

**Wednesday, February 6, 2019**

**9:00 A.M.**

**City of Parksville Forum  
100 Jensen Avenue**

In Attendance:	E. Mayne, Chair	Mayor, City of Parksville
	B. Rogers	Director, Regional District of Nanaimo
	C. Gourlay	Director, Regional District of Nanaimo

Also in Attendance:	D. O'Brien	Councillor, City of Parksville
	S. Harrison	Councillor, Town of Qualicum Beach

P. Carlyle	Regional District of Nanaimo
R. Alexander	Regional District of Nanaimo
J. Bradburne	Regional District of Nanaimo
G. St.Pierre	Regional District of Nanaimo
M. Walters	Regional District of Nanaimo
L. Butterworth	City of Parksville
V. Figueira	City of Parksville
K. Kehler	City of Parksville
B. Weir	Town of Qualicum
R. Graves	Recording Secretary

**CALL TO ORDER**

Phyllis Carlyle, Chief Administrative Officer called the meeting to order at 9:20 AM.

**ELECTION OF CHAIR**

Phyllis Carlyle, Chief Administrative Officer called for nominations for the position of Chair for the year 2019.

Director Rogers nominated Mayor Mayne.

Mayor Mayne accepted the nomination.

There being no further nominations, Phyllis Carlyle, Chief Administrative Officer declared Mayor Mayne as Chair of the Board for the following year.

**APPROVAL OF THE AGENDA**

It was moved and seconded that the agenda be approved as presented.

**CARRIED UNANIMOUSLY**

## **ADOPTION OF MINUTES**

### **Englishman River Water Service Management Board Meeting - May 22, 2018**

It was moved and seconded that the minutes of the Englishman River Water Service Management Board meeting held May 22, 2018 be adopted.

CARRIED UNANIMOUSLY

## **INVITED PRESENTATIONS**

### **Project Update**

V. Figueira gave a verbal presentation.

## **REPORTS**

### **Englishman River Water Service 2019 - 2023 Financial Plan Report**

It was moved and seconded that the report from the Englishman River Water Service Management Committee, dated January 07, 2019 entitled ERWS 2019 - 2023 Final Financial Plan be received.

CARRIED UNANIMOUSLY

It was moved and seconded that the Englishman River Water Service Management Board approve an increase of \$220,000.00 in the 2019 ERWS capital budget to cover the cost of adding an Automatic Transfer Switch to Contract 1 as shown in the 2019 – 2023 Final Financial Plan.

CARRIED UNANIMOUSLY

It was moved and seconded that the Englishman River Water Service Management Board approve an additional \$99,000.00 in the 2019-2023 ERWS capital budget to cover the cost of Plant SCADA Integration, Safety Audit, Lab Equipment and Furniture and a Pickup Truck as shown in the proposed 2019 – 2023 Final Financial Plan.

CARRIED UNANIMOUSLY

It was moved and seconded that the Englishman River Water Service Management Board approve the proposed 5 year Operational Budget as shown in the 2019 – 2023 Final Financial Plan.

CARRIED UNANIMOUSLY

It was moved and seconded that the 2019-2023 Final Financial Plan be amended to remove the dollars in the 2021-2023 Financial Plan for Aquifer Storage Recovery and to add \$50,000 in 2020 to get a third party report summarizing the research done on Aquifer Storage Recovery under grant funding for Kaye and Claudet Road.

Opposed (1): Doug O'Brien

CARRIED

It was moved and seconded that the Englishman River Water Service Management Board accepts the 2019-2023 Final Financial Plan as outlined in Table 1 attached to the January 07, 2019 report, as amended to exclude the dollars in the 2021-2023 Financial Plan for Aquifer Storage Recovery and to add \$50,000 in 2020 to get a third party report summarizing the research done on Aquifer Storage Recovery under grant funding for Kaye and Claudet Road.

CARRIED UNANIMOUSLY

It was moved and seconded that the Englishman River Water Service Management Board recommends the Joint Ventures adopt their portion of the 2019 – 2023 Final Financial Plan as outlined in Table 1 attached to the January 07, 2019 report.

CARRIED UNANIMOUSLY

### **ADJOURNMENT**

It was moved and seconded that the meeting be adjourned.

CARRIED UNANIMOUSLY

TIME: 10:46

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CHAIR

**ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE**  
**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

**ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE**

**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2018**

Independent Auditors' Report

Statement of Financial Position

Statement of Operations and Joint Venturers' Accumulated Surplus

Notes to Financial Statements

**ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE**

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2018**

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

Approved:

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ENGLISHMAN RIVER WATER SERVICE JOINT VENTURE

STATEMENT OF OPERATIONS AND JOINT VENTURERS' ACCUMULATED SURPLUS

YEAR ENDED DECEMBER 31, 2018

	City of Parksville	Regional District of Nanaimo	Town of Qualicum Beach	2018 Total	2017 Total (Recast-Note 7)
<b>ACCUMULATED SURPLUS PRIOR TO REALLOCATION AT BEGINNING OF YEAR</b>	\$ 16,268,999	\$ 4,348,399	\$ 98,724	\$ 20,716,122	\$ 6,083,174
Expenses					
Administration	12,364	4,344	-	16,708	6,470
	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
	26,617,309	7,139,449	98,724	33,855,482	20,716,122
Accumulated surplus prior to reallocation at end of year					
Town of Qualicum Beach contribution reallocated (note 5)	73,056	25,668	(98,724)	-	-
<b>ACCUMULATED SURPLUS AT END OF YEAR (note 5)</b>	\$ 26,690,365	\$ 7,165,117	\$ -	\$ 33,855,482	\$ 20,716,122

# 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.

	<b>City of Parksville</b>	<b>Regional District of Nanaimo</b>	<b>Total</b>
<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	<b>2018</b>	<b>2017</b>
				(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.



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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.

Chartered Professional Accountants

DATE  
Victoria, Canada

DRAFT



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## **AUDIT FINDINGS LETTER**

### **PRIVATE & CONFIDENTIAL**

Englishman River Water Service Joint Venture Management Board  
c/o City of Parksville  
100 Jensen Avenue East  
PO Box 1390  
Parksville, BC V9P 2H3

Date of Board Meeting

To the Management Board of Englishman River Water Service Joint Venture ("ERWS"):

We are pleased to provide the following information for your review and consideration in order to assist you in carrying out your responsibilities with respect to the review of the audited financial statements of ERWS for the year ended December 31, 2018. A summary of the information provided is as follows:

#### Description

- Audit status and opinion
- Significant audit, accounting and reporting matters
- Significant qualitative aspects of accounting practices
- Misstatements and control deficiencies
- Independence

This report is intended to communicate to you the results of our examination. We would be pleased to receive any comments or suggestions for improvements, which you may have.

We would like to thank the staff and management for their cooperation and assistance during the course of our audit fieldwork. We appreciate the opportunity to serve you and look forward to a continuing relationship.

This letter is for the use of the Management Board of Englishman River Water Service Joint Venture for the purposes of carrying out and discharging its responsibilities and should not be used for any other purpose. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this document has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly

Lenora Lee, CPA, CA  
*Engagement Partner*  
250.480.3588



**AUDIT STATUS AND OPINION**

As of the date of this letter, we have completed the audit of the ERWS financial statements, with the exception of certain remaining procedures which include:

- completing our discussions with the Management Board
- obtaining a signed representation letter
- obtaining evidence of the Board’s approval of the financial statements

We will update the ERWS Management Board on any significant matters arising from the completion of the above procedures, as additional procedures or adjustments to the financial statements may be necessary.

Our audit report will be dated upon completion of any remaining procedures.

**SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS**

Materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. For the current period, we have determined a materiality of \$400,000.

Basis of accounting

The financial statements of ERWS are prepared specifically for the joint venture members in accordance with the terms of the joint venture agreement. The basis of preparation of the financial statements differs from public sector accounting standards because amortization is not recorded in the joint venture financial statements, but rather by the joint venture members in their own respective financial statements. We have reviewed the joint venture agreement and noted financial statements may be prepared on this basis. Note 1 to the financial statements indicates the basis of accounting describing the above policies, and our audit opinion is prepared with reference to this basis of accounting.

**SIGNIFICANT QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

We plan to discuss the following items with you as it relates to the qualitative aspects of accounting practices of ERWS:

<b>Significant accounting policies</b>	<ul style="list-style-type: none"> <li>• Critical accounting policies and practices – described in Note 1 to the financial statements</li> </ul>
<b>Significant accounting estimates</b>	<ul style="list-style-type: none"> <li>• There are no significant estimates in the financial statements of ERWS</li> </ul>
<b>Significant disclosures</b>	<ul style="list-style-type: none"> <li>• Accumulated surplus and joint venturer’s proportionate share</li> <li>• Allocation from Town of Qualicum Beach</li> <li>• The 2017 comparative figures were recast to present the due to joint venturers balance as a liability rather than as a component of accumulated surplus, consistent with presentation adopted in 2018. This presentation is consistent with Arrowsmith Water Service.</li> </ul>



***SIGNIFICANT REPORTING MATTERS***

**Grant Revenues**

ERWS entered into a shared cost agreement with the Province in March 2017 for the Drinking Water Supply Transmission Mains and Secondary Membrane Water Treatment Project. The total grant revenue earned in 2018 was \$4,492,229 and was recognized in 2018 proportionate to the holdings of each joint venture partner. We tested a sample of additions and inspected grant claims and receipts related to the project. We did not note any errors or adjustments.

***MISSTATEMENTS***

**Audit Misstatements – Identification**

Misstatements identified during the audit have been categorized as follows:

- uncorrected audit misstatements, including disclosures.
- corrected audit misstatements, including disclosures.

**Uncorrected Audit Misstatements**

We did not identify any adjustments that were communicated to management and remained uncorrected.

**Corrected Audit Misstatements**

We did not identify any adjustments that were communicated to management and were corrected in the financial statements.

***CONTROL DEFICIENCIES***

As your auditors, we are required to obtain an understanding of internal control over financial reporting (“ICFR”) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described in the preceding paragraph and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

We did not identify any control deficiencies that we consider to be significant deficiencies in ICFR.

***INDEPENDENCE***

We confirm that we are independent with respect to ERWS within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2018 up to the date of this letter.



**englishman river**  
**WATER SERVICE**

**DATE:** September 05, 2019

**REPORT TO:** ENGLISHMAN RIVER WATER SERVICE MANAGEMENT BOARD

**FROM:** ENGLISHMAN RIVER WATER SERVICE MANAGEMENT COMMITTEE

**SUBJECT:** ENGLISHMAN RIVER WATER SERVICE (ERWS),  
CONTRACT 1 PROJECT UPDATE and BUDGET INCREASE REQUEST

**PURPOSE:** APPROVAL OF ADDITIONAL FUNDS TO COMPLETE CONTRACT 1 -  
INTAKE, TREATMENT PLANT, AND SUPPLY MAINS TO TOP BRIDGE  
RESERVOIR.

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**EXECUTIVE SUMMARY:**

The purpose of this report is to seek ERWS Board approval for an additional \$380,300 in project funding for Contract 1. The funds are required to complete necessary change orders to not delay commissioning, avoid project delays and potential delay claims from the contractor, and take the construction and commissioning to a conclusion.

**RECOMMENDATION(S):**

1. THAT the report from the Englishman River Water Service Management Committee, dated September 05, 2019 entitled, “ENGLISHMAN RIVER WATER SERVICE (ERWS), CONTRACT 1 PROJECT UPDATE and BUDGET INCREASE REQUEST” be received.
2. THAT the Englishman River Water Service Management Board approves an increase of \$380,300 in the 2019 ERWS capital budget for Contract 1. The Funds are required to complete necessary change orders to avoid commissioning delays, project delays and potential delay claims from the contractor and take the construction and commissioning to a conclusion.
3. THAT the Englishman River Water Service Management Board recommends the Joint Ventures adopt their portion of the additional required budget.

**BACKGROUND:**

This report focuses on the 2019 financial status of the ERWS Contract 1 - Intake, Treatment Plant, and supply mains to Top Bridge Reservoir as it is the only ERWS contract that is forecasted to be in a deficit position requiring additional funding. The earlier presentation of the Cumulative Project

**ENGLISHMAN RIVER WATER SERVICE (ERWS),  
CONTRACT 1 PROJECT UPDATE and BUDGET INCREASE REQUEST**

Accounting provided the Board with the full 2017 - 2019 financial review. As shown in that analysis, all accounts had been reconciled as of the end of 2018. The total 2019 budget approved by the ERWS Board on Feb 06, 2019, was as follows:

**Table 1.**

<b>2019, ERWS Contract 1 Approved Budget</b>	
<b>Description</b>	<b>Amount</b>
Total Contracts (Consulting plus Construction)	7,370,200
<b>Subtotal 1</b>	<b>7,370,200</b>
ATS Consulting	20,000
Plant Integration	4,000
Safety Audit	30,000
Small Tools & Equipment & Furniture	30,000
ATS Construction	200,000
<b>Additional Capital Items Subtotal 2</b>	<b>284,000</b>
<b>Total</b>	<b>\$7,654,200</b>

For this analysis we will focus on the original approved total contracts budget (\$7,370,200) shown in Table 1. The additional capital items amount approved totaling \$284,000 is currently not expected to be exceeded.

As of the beginning of 2019, the total contracts outstanding per purchase order or invoice for Contract1 to take the project to completion amounted to \$6,865,700. Therefore, the surplus (or Contingency) at the beginning of 2019 was:

**Table 2.**

<b>Expected Surplus at Beginning of 2019</b>	
<b>Description</b>	<b>Amount</b>
Total Contracts (Consulting plus Construction)	7,370,200
Total Purchase Orders	-6,865,700
<b>Total Surplus(Contingency)</b>	<b>504,500</b>

During the course of the 2019 construction and commissioning, additional change orders and contemplated (forecasted) change orders for consulting services and construction contracts occurred. As of the date of this report, the cost of the total 2019 change orders plus contemplated change orders equals \$756,000. Other costs associated with wages for City staff to oversee the Contract 1 works, attend meetings, provide input etc.... that were not specifically budgeted for amount to \$78,800. Therefore, the current financial status of the Contracts budget is as follows:

**Table 3.**

<b>Contract 1 - Summary of Current Financial Status (Contracts)</b>	
<b>Description</b>	<b>Amount</b>
Total Surplus at beginning of 2019	504,500
Total Change Orders + Contemplated Change Orders	-756,000
City Wages	-78,800
<b>Total Deficit</b>	<b>-330,300</b>

**ENGLISHMAN RIVER WATER SERVICE (ERWS),  
CONTRACT 1 PROJECT UPDATE and BUDGET INCREASE REQUEST**

There are two major factors that have significantly contributed to pushing Contract 1 over budget. One factor resulted from incorrect forecasting information provided by the Consultant. Prior to approving change orders, the ERWS Program Manager, working with the City Finance staff, evaluates the overall approved budget against the total existing and forecasted change orders to ensure that enough funds are available and to indicate if and when the Program Manager will need to come to the Board to identify a potential change to the budget. Unfortunately, the information provided by the consultant was not correct and understated the projected Consultant costs to Contract 1 by approximately \$400,000.

The second factor was related to PST charges. Normally PST amounts are identified on the Purchase order to ensure that they are accounted for and many suppliers include PST on their invoices. However, it was discovered in March 2019 that the PST was not properly identified on the Purchase order and the project is responsible for an additional \$250,000 in PST costs. The contract for this equipment was awarded to an out-of-province company, so the City must self-assess and remit PST on any invoices from that supplier that do not explicitly include PST. Part of this PST was remitted for 2018 supplier costs in March 2019 and approximately \$150,000 remains to be paid after receipt of the supplier’s final invoice.

Prior to these recently identified unexpected costs totaling \$650,000 (400,000+250,000), the project was being managed within the approved project budget. As of the beginning of 2019 significant surplus (\$504,000) was thought to be available. During the course of 2019 several change orders and contemplated change orders were evaluated by the ERWS Program Manager. Although the confirmed list of change orders are valid and critical to the successful completion of the project, knowledge of the projects actual deficit position was only recently identified.

In the interest of completing Contract 1, the ERWS Management Committee recommends that the ERWS Board approve the following 2019 budget increase:

**Table 4.**

<b>Contract 1 - 2019 Budget Increase Request</b>	
<b>Description</b>	<b>Amount</b>
Total Current Project Deficit	330,300
Proposed Contingency	50,000
<b>Total 2019 Budget Increase Request</b>	<b>380,300</b>

**OPTIONS:**

1. Approve an additional \$380,300.00 in project funding for Contract 1.
2. Provide the ERWS Management Committee with other direction.

**ANALYSIS:**

Option 1

This would allow the Contractor to complete necessary change orders to avoid commissioning delays, project completion delay and potential delay claims from the contractor and take the construction and commissioning to a conclusion.

Option 2

The Management Committee feels that not approving or delaying approval of the requested funding would result in project delays and potential claims.

**FINANCIAL IMPACT:**

The updated financial position is summarized below:

Table 5.

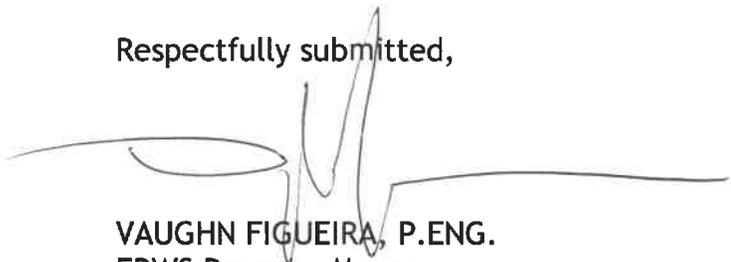
2019, ERWS Contract 1 Updated Financial Position	
Description	Amount
Total Previously Approved 2019 Budget	7,654,200
2019 Budget Increase Request	380,300
<b>Total Revised 2019 Budget</b>	<b>\$8,034,500</b>

(NOTE: the above revised position includes a \$50,000 contingency to complete Contract 1)

**REFERENCES:**

Minutes of the Englishman River Water Service Joint Venture Meeting of the Management Board Meeting dated Wednesday February 6, 2019.

Respectfully submitted,



VAUGHN FIGUEIRA, P.ENG.  
ERWS Program Manager

VF:fm