

HAGENSBORG WATERWORKS DISTRICT

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FOR THE YEAR ENDED DECEMBER 31, 2010

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Hagensborg Waterworks District and all the information in this annual report are the responsibility of management and have been approved by the Board of Trustees.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.

The District's management maintains systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the District's assets are appropriately accounted for and adequately safeguarded.

The District's Board of Trustees is responsible for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

PMT Chartered Accountants, the auditors appointed by the Board of Trustees, have reviewed the systems of internal control and examined the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express an independent opinion on the financial statements. Their report accompanies these statements.

The District's Board of Trustees reviews and approves the financial statements. The District's management meets periodically with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities. They review the financial statements and the external auditor's report, as well as the engagement of the external auditors.

Chris Matthews
Chairman of the Board of Trustees

Rosemary Smart
Administrator for the District



AUDITORS' REPORT

To The Board of Trustees
Hagensborg Waterworks District
Hagensborg, BC

Report on the Financial Statements

We have audited the accompanying financial statements of the Hagensborg Waterworks District, which comprise the statement of financial position as at December 31, 2010, and the statement of revenue and expenditures, cash flows and statement of changes in net financial assets for the year then ended, 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 financial statements in accordance with Canadian generally accepted accounting principles for local governments, 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.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the District as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for local governments.

PMT

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April 1, 2011

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Statement of Financial Position - December 31, 2010

	2010	2009
<i>FINANCIAL ASSETS</i>		
Cash	\$ 484,613	\$ 364,160
Accounts receivable - Note 4	<u>16,990</u>	<u>19,312</u>
	<u>501,603</u>	<u>383,472</u>
<i>FINANCIAL LIABILITIES</i>		
Accounts payable and accrued liabilities - waterworks	17,251	10,842
Deferred revenue - Note 5	<u>11,556</u>	<u>11,280</u>
	<u>28,807</u>	<u>22,122</u>
<i>NET FINANCIAL ASSETS</i>	<u>472,796</u>	<u>361,350</u>
<i>NON-FINANCIAL NET ASSETS</i>		
Tangible capital assets - Note 6	418,660	420,957
Prepaid expenses - waterworks	6,647	6,140
- fire department	<u>183</u>	<u>183</u>
	<u>425,490</u>	<u>427,280</u>
<i>ACCUMULATED SURPLUS</i>	<u>\$ 898,286</u>	<u>\$ 788,630</u>
Commitments - Note 7		

APPROVED BY THE TRUSTEES

_____ Trustee

_____ Trustee

The accompanying Notes are an integral part of this statement.

**Statement of Changes in Net Financial Assets
For The Year Ended December 31, 2010**

	Restricted - Note 8				Net	
	Unrestricted	Investment in Capital Assets	Renewal Reserve	Capital Development Reserve	2010	2009
Balance, beginning of year	\$ 99,277	\$ 440,359	\$ 226,563	\$ 22,431	\$ 788,630	\$ 759,487
Excess of revenue over expenditures	<u>109,656</u> 208,933	<u>-</u> 440,359	<u>-</u> 226,563	<u>-</u> 22,431	<u>109,656</u> 898,286	<u>29,143</u> 788,630
Budget appropriation	(24,000)	-	24,000	-	-	-
Transfer for						
Purchase of tangible capital assets	(16,897)	16,897	-	-	-	-
Amortization on tangible capital assets	<u>38,596</u>	<u>(38,596)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 206,632</u>	<u>\$ 418,660</u>	<u>\$ 250,563</u>	<u>\$ 22,431</u>	<u>\$ 898,286</u>	<u>\$ 788,630</u>

The accompanying Notes are an integral part of this statement.

*Statement of Waterworks Operations
For The Year Ended December 31, 2010*

	2010 Budget	2010 Actual	2009 Actual
Revenue			
Watertolls and penalties	\$ 36,000	\$ 34,700	\$ 34,750
Parcel tax and penalties	100,000	100,550	19,125
Hook up fees	-	375	175
Department of Fisheries	-	-	185
PEP claim reimbursement	-	3,919	-
Miscellaneous and grant revenue	10,000	-	-
Interest	<u>8,000</u>	<u>8,155</u>	<u>7,231</u>
	<u>154,000</u>	<u>147,699</u>	<u>61,466</u>
Expenditures			
Advertising	300	437	260
Amortization	18,000	16,633	17,126
Bad debts	-	2,177	-
Bank charges	350	275	313
Corporate and financial administrator	11,000	16,181	10,394
HST expense	-	579	-
Insurance, licences and permits	10,000	8,626	8,458
Memberships	500	285	410
Office supplies	250	-	304
Postage	1,000	382	762
Professional fees	11,000	13,000	11,500
Repairs and maintenance	20,000	8,588	10,236
Supplies	500	-	305
Telephone	1,200	1,154	1,064
Training	3,000	-	-
Travel and meeting expenses	1,500	-	1,109
Trustees' honouraria	<u>1,250</u>	<u>1,000</u>	<u>1,140</u>
	<u>79,850</u>	<u>69,317</u>	<u>63,381</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 74,150</u>	<u>\$ 78,382</u>	<u>\$ (1,915)</u>

The accompanying Notes are an integral part of this statement.

*Statement of Fire Department Operations
For The Year Ended December 31, 2010*

	2010 Budget	2010 Actual	2009 Actual
Revenue			
Provincial assessment	\$ 41,122	\$ 41,198	\$ 28,800
Tax exempt properties	11,468	11,280	11,294
Miscellaneous	<u>-</u>	<u>-</u>	<u>7,000</u>
	<u>52,590</u>	<u>52,478</u>	<u>47,094</u>
Expenditures			
Amortization	2,000	2,562	2,276
Firemen's honouraria	1,260	900	750
Fire fighting equipment	2,500	4,464	-
HST expense	-	207	-
Insurance and licences	1,680	1,496	1,494
Inspection fees	1,050	104	159
Miscellaneous	-	-	55
Repairs and maintenance - building	1,500	1,189	56
- equipment	2,000	1,670	2,054
Supplies	-	-	120
Telephone	9,400	4,494	4,278
Training allowance	2,650	-	-
Truck fuel	1,050	202	961
Utilities	<u>3,500</u>	<u>3,916</u>	<u>3,833</u>
	<u>28,590</u>	<u>21,204</u>	<u>16,036</u>
Excess of revenue over expenditures	<u>\$ 24,000</u>	<u>\$ 31,274</u>	<u>\$ 31,058</u>

The accompanying Notes are an integral part of this statement.

Statement of Cash Flows
For The Year Ended December 31, 2010

	2010	2009
Cash flows from operating activities		
Excess of revenue over expenditures	\$ 109,656	\$ 29,143
Amortization	<u>19,195</u>	<u>19,402</u>
	<u>128,851</u>	<u>48,545</u>
Changes in non-cash working capital items:		
Accounts receivable	2,322	(8,363)
Prepaid expenses	(507)	(52)
Accounts payable and accrued liabilities	6,408	1,855
Deferred revenue	<u>276</u>	<u>11,280</u>
	<u>8,499</u>	<u>4,720</u>
	137,350	53,265
Cash flows from capital activity		
Purchase of tangible capital assets	(16,897)	(26,364)
Increase during the year	120,453	26,901
Cash, beginning of year	<u>364,160</u>	<u>337,259</u>
Cash, end of year	<u>\$ 484,613</u>	<u>\$ 364,160</u>
Supplementary information:		
Income tax paid	\$ -	\$ -
Interest paid	\$ -	\$ -

The accompanying Notes are an integral part of this statement.

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Notes To The Financial Statements
For The Year Ended December 31, 2010

1. Purpose

The Hagensborg Waterworks District (the "District") operates under the provisions of the Local Government Act and the Community Charter of British Columbia. It is responsible for maintaining and running the water system and the fire protection system in the Hagensborg area.

2. Significant accounting policies**a) Basis of presentation**

The financial statements of the District are prepared by management in accordance with the Canadian general accepted accounting principles for local governments, as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

b) Fund accounting

The District follows the Restricted Fund method of accounting for contributions.

The General Unrestricted Fund reports assets, liabilities, revenues and expenditures related to water works operations and fire protection operations.

The Investment in Capital Asset Fund reports the assets and liabilities related to capital assets.

The Renewal Reserve reports assets, liabilities, revenues and expenditures. These funds are to be used only for approved maintenance expenditures.

The Capital Development Reserve reports assets, liabilities, revenues and expenditures. These funds are to be used only for approved capital asset expenditures.

c) Accrual accounting

The accrual method for reporting revenues and expenditures, including capital expenditures, has been used. Revenues are recorded in the period they are earned. Expenditures are recorded as the costs of goods or services in the period they are obtained.

d) Revenue recognition

Grants and contributions (other than grants in lieu of taxes) are recorded when receivable. Revenue is recorded on an accrual basis. Revenue is recognised when earned or when a commitment to receipt has been established.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand less outstanding cheques and deposits with a maturity of less than three months at the time of purchase. When outstanding cheques are in excess of cash on hand, the excess is reported in bank indebtedness.

f) Interest

The District follows the practice of investing individually significant unspent funds within individual funds. Interest earned is allocated on the basis of actual earnings from the specific instruments.

*Notes To The Financial Statements
For The Year Ended December 31, 2010*

2. Significant accounting policies (continued)

g) Tangible capital assets

Tangible capital assets are recorded at cost in the Investment in Capital Asset Fund. Contributed tangible capital assets are recorded at fair value at the date of contribution. The District amortizes its tangible capital assets as follows:

Buildings	2.5%
Fire and water equipment	20%
Fire truck	15%
Office equipment	20%
Pipeline system	2%
Snootli Creek Dam	2%

h) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Significant areas requiring use of management estimates relate to valuation of inventory and the collectibility of accounts receivable. Actual results could differ from those estimates.

i) Contributed services

Volunteers contribute many hours per year to assist the District in carrying out its operations. Because of the difficulty of determining their fair market value, contributed services are not recognized in these financial statements.

3. Financial instruments

a) Fair value

Assets and liabilities designated as available-for-sale include cash, term deposits, and accrued interest are measured in the statement of financial position at fair value. The fair value for accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the relatively short-term to maturity of these instruments.

b) Interest rate risk

It is management's opinion that the District is not subject to significant interest rate risk associated with its financial instruments.

c) Credit risk

It is management's opinion that the District is not subject to significant credit risk associated with its financial instruments.

*Notes To The Financial Statements
For The Year Ended December 31, 2010*

4. *Accounts receivable*

	<u>2010</u>	<u>2009</u>
Water tolls and parcel taxes	\$ 10,437	\$ 2,411
Tax exempt property	3,965	2,551
Infrastructure grant receivable	-	9,973
Miscellaneous receivable	-	955
GST/HST refund - waterworks	3,509	2,882
- fire department	<u>1,256</u>	<u>540</u>
	19,167	19,312
Less allowance for doubtful accounts	(2,177)	-
	<u>\$ 16,990</u>	<u>\$ 19,312</u>

5. *Deferred revenue*

Deferred revenue represents unspent tax exempt properties revenue, for the fire department, received in the current year that relates to the subsequent year. Changes in the deferred revenue balance are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 11,280	\$ -
Less: amount recognized during the year	(11,280)	-
Plus: amounts received during the current year relating to the following year	<u>11,556</u>	<u>11,280</u>
Balance, end of year	<u>\$ 11,556</u>	<u>\$ 11,280</u>

6. *Tangible capital assets*

	Cost	Accumulated Amortization	Net	
			<u>2010</u>	<u>2009</u>
Fire Protection				
Buildings	\$ 84,873	\$ 26,524	\$ 58,349	\$ 47,024
Fire truck	83,462	80,950	2,512	2,898
Fire and water equipment	35,009	26,628	8,381	9,710
Property	<u>3,684</u>	-	<u>3,684</u>	<u>3,684</u>
	<u>207,028</u>	<u>134,102</u>	<u>72,926</u>	<u>63,316</u>
Waterworks				
Office equipment	970	959	11	13
Pipeline system	604,832	276,259	328,573	339,763
Snootli Creek Dam	<u>27,420</u>	<u>10,270</u>	<u>17,150</u>	<u>17,865</u>
	<u>633,222</u>	<u>287,488</u>	<u>345,734</u>	<u>357,641</u>
	<u>\$ 840,250</u>	<u>\$ 421,590</u>	<u>\$ 418,660</u>	<u>\$ 420,957</u>

**Notes To The Financial Statements
For The Year Ended December 31, 2010**

7. Commitments

- a) The District is under a water boil advisory. In order to remove this advisory the District will need to make improvements to its water system. Cost associated with these improvements were not determinable as at December 31, 2010.
- b) During the course of the year, the District may be a defendant in a lawsuit. The District reviews any claims or potential claims made against it on a yearly basis to determine if they would be covered by insurance, and if not, whether a claim that would not be successfully defended would have a material effect on the financial statements.

The management of the District is not aware of any claims or potential claims that if not successfully defended would have a material effect on the financial statements. If a claim was paid as a result of the outcome of litigation it would be treated as an expenditure.

8. Restricted reserves

The Capital Development Reserve and corresponding restricted cash can only be released if the expenses are capital in nature, a Bylaw is passed by the Board of Trustees, and the Bylaw is approved by the Ministry of Municipal Affairs.

The Renewal Reserve is set up based on the annual budget set by the Board of Trustees. The reserve and corresponding restricted cash can only be released if the Board approves an expenditure Bylaw, and this Bylaw is approved by the Ministry of Municipal affairs.

	2010	2009
Renewal Reserve for waterworks	\$ 151,063	\$ 151,063
Renewal Reserve for fire protection	99,500	75,500
Capital Development Reserve for waterworks	22,431	22,431
	\$ 272,994	\$ 248,994

9. Related party transactions

The District has entered into the following related party transactions during the year:

During the year, the District paid \$5,770 (2009 - \$8,399) to Matthews Contracting, a business owned by one of the Board of Trustees, for maintenance costs. As of December 31, 2010, included in accounts payable is \$274 (2009 - \$189) owing to Matthews Contracting for the maintenance contract.

*Notes To The Financial Statements
For The Year Ended December 31, 2010*

10. Capital disclosure

The District considers its capital to be the balance maintained in its Unrestricted Net Assets. The primary objective of the District is to invest its capital in a manner that will allow it to continue as a going concern and comply with its stated objectives. Capital is invested under the direction of the Board of Directors of the District with the objective of providing a reasonable rate of return, minimizing risk and ensuring adequate liquid investments are on hand for current cash flow requirements. The District is required to invest capital to meet the external requirements for water quality under the Drinking Water Protection and Regulations. The District is under service expansion restrictions while there is a Boil Water Advisory in place. There is an externally imposed restriction to replace the fire truck after a specified number of years regardless of the condition of the truck.

11. Comparative figures

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