

**DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
Financial Statements**

(Audited)

DECEMBER 31, 2023

DRAFT

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
FOR THE YEAR ENDED DECEMBER 31, 2023

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DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
STATEMENT OF FINANCIAL POSITION
 AS AT DECEMBER 31, 2023, WITH COMPARATIVE INFORMATION FOR 2022

	2023 Actual	2022 Actual
Financial Assets		
Investments (Notes 4 and 6)	\$ 4,412,575	\$ 4,230,295
Liabilities		
Asset retirement obligation (Note 7)	53,595,259	-
Unearned revenue	1,954,934	2,007,614
	55,550,193	2,007,614
Net Financial Assets (Liabilities)	(51,137,618)	2,222,681
Non-Financial Assets		
Tangible capital assets (Schedule I)	55,215,650	4,874,475
Accumulated Surplus (Note 8)	\$ 4,078,032	\$ 7,097,156

Approved by:

 Teri Vetter
 Director of Financial Services

See accompanying notes to the financial statements.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2023, WITH COMPARATIVE INFORMATION FOR 2022

	2023 Budget (Note 10)	2023 Actual	2022 Actual
Revenues			
Contributions from:			
The Corporation of the District of North Cowichan	\$ 1,067,473	\$ 786,520	\$ 917,720
The Corporation of the City of Duncan	594,569	425,353	510,849
Cowichan Valley Regional District	291,544	219,271	255,218
Cowichan Tribes	47,302	37,430	41,486
Return on investments	-	119,760	48,646
Grants and government transfers	1,037,160	316,524	481,326
	<u>3,038,048</u>	<u>1,904,858</u>	<u>2,255,245</u>
Expenses (Note 9)			
Administration	61,180	62,844	57,343
Amortization	89,850	1,458,801	89,849
Accretion	-	2,145,457	-
Sewer lagoon operations and maintenance	1,313,668	1,256,880	1,146,863
	<u>1,464,698</u>	<u>4,923,982</u>	<u>1,294,055</u>
Annual Surplus (Deficit)	\$ 1,573,350	(3,019,124)	961,190
Accumulated surplus, beginning of year	<u>7,097,156</u>	<u>7,097,156</u>	<u>6,135,966</u>
Accumulated surplus, end of year	<u><u>\$ 8,670,506</u></u>	<u><u>\$ 4,078,032</u></u>	<u><u>\$ 7,097,156</u></u>

See accompanying notes to the financial statements

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

1. SIGNIFICANT ACCOUNTING POLICIES

It is the Board's policy to follow Canadian public sector accounting standards and to apply such principles consistently. The following is a summary of the Board's significant policies:

a) Basis of Accounting

The Board follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of the delivery of goods or services and/or upon the creation of a legal obligation to pay. Expenses paid in the current period and attributable to a future period are recorded as prepaid.

b) Revenue recognition

- i) Contributions from partners are recognized when invoiced.
- ii) Government transfers are recognized in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made, except when and to the extent the transfer gives rise to an obligation that meets the definition of a liability. Transfers received for which expenses are not yet incurred or stipulations not met are included in unearned revenue.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit in qualifying institutions as defined in the Community Charter.

d) Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial assets for the year.

e) Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization and are classified according to their functional use. Cost includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Donated assets are recorded at their estimated fair value upon acquisition. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	15 to 50 years
Engineering Structures	10 to 60 years
Machinery & Equipment	5 to 40 years

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) Tangible Capital Assets continued

Amortization is charged on a monthly basis, starting the month following the date of acquisition and ending in the month of disposition. Capital works in progress are not amortized until the asset is available for productive use.

Tangible capital assets are written down when conditions indicate they no longer contribute to the Board's ability to provide goods and services or when the value of the future economic benefits associated with the asset is less than the book value of the asset.

f) Asset Retirement

A liability for an asset retirement obligation is recognized at the best estimate of the amount required to retire a tangible capital asset at the financial statement date when there is a legal obligation for the Board to incur retirement costs, the past transaction or event giving rise to the liability has occurred, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made. The best estimate of the liability includes all costs directly attributable to asset retirement activities, based on information available at year-end. The best estimate of an asset retirement obligation incorporates a present value technique, when the cash flows required to settle or otherwise extinguish an asset retirement obligation are expected to occur over extended future periods.

When a liability for an asset retirement obligation is initially recognized, a corresponding asset retirement cost is capitalized to the carrying amount of the related tangible capital asset. The asset retirement cost is amortized over the useful life of the related asset. Asset retirement obligations which are incurred incrementally with use of the asset are recognized in the period incurred with a corresponding asset retirement cost expensed in the period.

At each financial reporting date, the board reviews the carrying amount of the liability. The Board recognizes period-to-period changes to the liability due to the passage of time as accretion expense. Changes to the liability arising from revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate are recognized as an increase or decrease to the carrying amount of the related tangible capital asset. The Board 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.

g) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles as recommended by PSAB 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 financial statements and the reported amounts of revenue and expenditure during the reporting period. An area requiring the use of management estimates relate to the determination of amortization of capital assets. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2. CHANGE IN ACCOUNTING POLICY

On January 1, 2023, the Board adopted Public Accounting Standard PS 3280 - *Asset retirement obligations*. This new standard establishes standards for recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets and replaces PS 3270 Solid Waste Landfill Closure and Post-closure Liability. This standard is effective for fiscal periods beginning on or after April 1, 2022. The Board has chosen prospective application of this standard.

On January 1, 2023, Public Accounting Standard PS 3450 - Financial Instruments, and Public Accounting Standard PS 2601 - Foreign Currency Translation were adopted. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for all recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions. The new standards had no impact to the financial statements on adoption.

3. SUMMARY OF OPERATIONS

The Duncan – North Cowichan Joint Utilities Board is a government partnership that operates and maintains joint sewer lagoons on behalf of the City of Duncan and the District of North Cowichan. The distribution of expenditures related to operations is based on the number of users in each municipality.

4. INVESTMENTS

Investments are carried at cost, which at December 31, 2023, would approximate market value. The balance of investments has been internally restricted by the Board and is to be expended in accordance with the terms of the reserve for capital expenditure.

5. OPERATING LEASE

The Board leases the sewage lagoon lands under an operating lease which expires July 31, 2060. Lease payments for 2023 are \$432,902 and have an annual increase of 2.2%. The total lease payments over the remaining term are estimated at \$23.8 million.

6. FINANCIAL INSTRUMENTS

The Board's financial instruments consist of investments. The carrying amount of these financial instruments approximates their fair value because they are short-term in nature or because they bear interest at market rates.

Financial instruments are recorded at fair value on initial recognition. Derivative instruments, equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the Statement of Remeasurment Gains and Losses until they are realized, when they are transferred to the Statement of Operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method or effective interest rate method. All financial assets are assessed for impairment on an annual basis.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2023

6. FINANCIAL INSTRUMENTS CONTINUED

When a decline is determined to be other than temporary, the amount of the loss is reported in the Statement of Operations and any unrealized gain is adjusted through the Statement of Remeasurement Gains and Losses. When the asset is sold, the unrealized gains and losses previously recognized in the Statement of Remeasurement Gains and Losses are reversed and recognized in the Statement of Operations.

Unless otherwise noted, it is management's opinion that the Board is not exposed to significant interest or credit risks arising from these financial instruments.

7. ASSET RETIREMENT OBLIGATION

Lease Obligation

The Board has a lease obligation that requires the full remediation of the land it leases to operate and maintain joint sewer lagoons to be returned to its original state at the end of the lease. Following the adoption of PS 3280 - *Asset retirement obligations*, the Board recognized an obligation relating to full remediation of the leased lands as estimated at January 1, 2023. The lease term was for 49 years and expires on July 31, 2060.

The transition and recognition of asset retirement obligations involved an accompanying increase to the sewer lagoon assets. The increase in these capital assets is amortized on a straight-line basis over the remaining term of the lease.

The Board has adopted this standard prospectively. Under the prospective method, the discount rate and assumptions used on initial recognition are those at the date of adoption of the standard. Estimated costs have been discounted using the present value calculation with a discount rate of 4.17%

At January 1, 2023, the Board recorded an asset retirement obligation and an increase to tangible capital assets of \$51,449,802.

Total Asset Retirement Obligation

	2023
Retirement obligation	\$ 51,449,802
Accretion expense	2,145,457
Estimated total liability	<u>\$ 53,595,259</u>

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2023

8. CAPITAL RESERVE FUNDS

Included in the accumulated surplus are capital reserve funds. The Capital reserve funds are non-statutory reserves, for the purpose of future capital expenditures, established at the discretion of the Board. Balances and changes are outlined as follows:

	2023	2022
Balances, beginning of year	\$ 2,222,681	\$ 2,058,836
Add: transfers from current operations	234,960	163,845
Balance, end of year	\$ 2,457,641	\$ 2,222,681

9. LISTING OF OPERATING EXPENSES BY OBJECT TYPE

The following provides a summary of operating expenses by object:

	2023	2022
Salaries, wages and benefits	\$ 264,214	\$ 195,116
Contract services	34,923	28,931
Amortization	1,458,801	89,849
Accretion	2,145,457	-
Materials and supplies	582,561	575,098
Land rent	438,026	405,061
Total Expenses	\$ 4,923,982	\$ 1,294,055

10. BUDGET DATA

The budget data presented in these financial statements is based upon the 2023-2027 Financial Plan Bylaw. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	2023
Financial Plan Bylaw surplus for the year	\$ -
Add back:	
Capital expenditures	1,548,000
Less:	
Amortization	(89,850)
Budgeted transfers to reserve funds	115,200
Adjusted Annual Surplus	\$ 1,573,350

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

11. FINANCIAL STATEMENT PRESENTATION

The statements of changes in net financial assets, remeasurement gains and losses, and cash flows have not been prepared as they are not considered to provide any additional useful information.

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DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD
TANGIBLE CAPITAL ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2023

SCHEDULE I

	COST				ACCUMULATED AMORTIZATION				NET BOOK VALUE		
	Balance December 31, 2022	2023 Additions	2023 Disposals	2023 Write-downs	Balance December 31, 2023	Balance December 31, 2022	2023 Additions	2023 Disposals	Balance December 31, 2023	2022	2023
Buildings	\$ 192,388	\$ -	\$ -	\$ -	\$ 192,388	\$ 24,449	\$ 4,810	\$ -	\$ 29,259	\$ 167,939	\$ 163,129
Engineering Structures	2,485,489	51,449,802	-	-	53,935,291	526,095	1,418,662	-	1,944,757	1,959,394	51,990,534
Machinery & Equipment	706,581	-	-	-	706,581	179,589	35,329	-	214,918	526,992	491,663
Work In Progress	2,220,150	350,174	-	-	2,570,324	-	-	-	-	2,220,150	2,570,324
	<u>\$ 5,604,608</u>	<u>\$ 51,799,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,404,584</u>	<u>\$ 730,133</u>	<u>\$ 1,458,801</u>	<u>\$ -</u>	<u>\$ 2,188,934</u>	<u>\$ 4,874,475</u>	<u>\$ 55,215,650</u>