

File: 1680-20 / 2017

DATE: November 20, 2017

TO: Chair and Directors
Regional District Board

FROM: Russell Dyson
Chief Administrative Officer

Supported by Russell Dyson
Chief Administrative Officer

R. Dyson

**RE: Merville Fire Protection District financial statements and audit findings
For year ended December 31, 2016 and the period ended June 14, 2017**

Purpose

To present the Merville Fire Protection District financial statements to the Comox Valley Regional District (CVRD) board along with MNP LLP's audit findings report relating to the audit of the Merville Fire Protection District (MFPD) for the year ended December 31, 2016 and the period ended June 14, 2017.

Recommendation from the Chief Administrative Officer

THAT the financial statements of the Merville Fire Protection District for the year ended December 31, 2016 and the period ended June 14, 2017 be approved.

Executive summary

- MFPD was converted to a regional district service on June 15, 2017 by Order in Council 113.
- The last audit of the MFPD was for the year ended December 31, 2015.
- MNP LLP has prepared the financial statements of the MFPD, (Appendix A) for the CVRD board's approval. In compliance with Canadian auditing standards, the financial statements are presented for board approval prior to the auditor's report being signed and finalized by the auditor for inclusion in the MFPD financial statements.
- MNP LLP has completed the audit of the MFPD for the year ended December 31, 2016 and period ending June 14, 2017 and have submitted their audit findings report to the CVRD board (attachment B).
- MNP LLP proposes to provide an unqualified audit opinion on the financial statements.

Policy analysis

By Order in Council 113, dated March 6, 2017, the letters patent of the Merville Fire Protection District were revoked and the rights, properties, assets and obligations were transferred to the Comox Valley Regional District effective June 15, 2017.

As the financial statements of the MFPD were not current, the CVRD engaged the services of its auditor MNP LLP, also the former auditor of the MFPD, to complete the audit for the 2016 calendar year and the 2017 period up to June 14, 2017 at a cost of \$5,000.

Canadian auditing standards require that financial statements of an organization be approved by the board of directors prior to the signing of the auditor's report. As MFPD no longer exists, management is presenting the financial statements to the CVRD board for approval and the auditor has addressed their audit findings report to the CVRD board.

Respectfully:

B. Dunlop

Beth Dunlop, CPPB, CPA, CGA
Corporate Financial Officer

Attachment A – Financial statements – Merville Fire Protection District, year ended December 31, 2016 and period ended June 14, 2017

Attachment B - MNP LLP audit findings report regarding Merville Fire Protection District, dated November 14, 2017

Appendix A

**Merville Fire Protection District
Consolidated Financial Statements**

For the six months ended June 14, 2017 and the year ended December 31, 2016

DRAFT - For Discussion Purposes Only

Merville Fire Protection District

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For the six month period ended June 14, 2017 and the year ended December 31, 2016

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Independent Auditors' Report

To the Members of Merville Fire Protection District :

We have audited the accompanying consolidated financial statements of Merville Fire Protection District, which comprise the consolidated statement of financial position as at June 14, 2017 and December 31, 2016 and the consolidated statements of operations and accumulated surplus, change in net financial assets, cash flows and the related schedules for the six month period ended June 14, 2017 and the year ended December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Merville Fire Protection District as at June 14, 2017 and December 31, 2016 and the results of its operations, change in net financial assets and its cash flows for the six month period ended June 14, 2017 and the year ended December 31, 2016 in accordance with Canadian public sector accounting standards.

Courtenay, British Columbia

November 14, 2017

Chartered Professional Accountants

Merville Fire Protection District
Consolidated Statement of Financial Position
As at June 14, 2017 and December 31, 2016

	<i>As at June 14, 2017</i>	<i>As at December 31, 2016</i>
Financial Assets		
Cash	372,322	370,753
Accounts receivable	98,921	-
	471,243	370,753
Financial Liabilities		
Accounts payable and accrued liabilities	105,960	2,500
	365,283	368,253
Net Financial Assets		
	365,283	368,253
Non-Financial Assets		
Tangible capital assets <i>(Note 5) (Schedule 1)</i>	45,717	46,469
	411,000	414,722
Accumulated Surplus <i>(Note 9)</i>		
	411,000	414,722

Approved on behalf of the Directors

 Director

 Director

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

Merville Fire Protection District
Consolidated Statement of Operations and Accumulated Surplus
For the six month period ended June 14, 2017 and the year ended December 31, 2016

	<i>Six month period end June 14, 2017</i>	<i>Year ended December 31, 2016</i>
Revenue		
Property tax levy	98,921	215,839
Interest income	1,568	3,749
	100,489	219,588
Fire protection services		
Amortization	752	1,638
Fire protection charges	100,959	188,607
System and hydrant upgrade and maintenance	-	177
	101,711	190,422
Administrative services		
Insurance	-	2,150
Professional fees	2,500	3,092
Rental	-	50
	2,500	5,292
Total expenses	104,211	195,714
Annual surplus (deficit)	(3,722)	23,874
Accumulated surplus, beginning of year	414,722	390,848
Accumulated surplus, end of year	411,000	414,722

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

Merville Fire Protection District

Consolidated Statement of Change in Net Financial Assets

For the six month period ended June 14, 2017 and the year ended December 31, 2016

	Six month period end June 14, 2017	Year ended December 31, 2016
Annual surplus (deficit)	(3,722)	23,874
Amortization	752	1,638
Change in net financial assets	(2,970)	25,512
Net financial assets, beginning of year	368,253	342,741
Net financial assets, end of year	365,283	368,253

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Merville Fire Protection District

Consolidated Statement of Cash Flows

For the six month period ended June 14, 2017 and the year ended December 31, 2016

	Six month period ended June 14, 2017	Year ended December 31, 2016
Cash provided by (used for) the following activities		
Operating activities		
Annual surplus (deficit)	(3,722)	23,874
Amortization	752	1,638
(Increase) decrease in accounts receivable	(98,921)	-
Increase (decrease) in accounts payable	103,460	(2,200)
Net cash provided by operating activities and increase in cash resources	1,569	23,312
Cash resources, beginning of year	370,753	347,441
Cash resources, end of year	372,322	370,753

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

Merville Fire Protection District

Notes to the Consolidated Financial Statements

For the six month period ended June 14, 2017 and the year ended December 31, 2016

1. Incorporation and commencement of operations

The Merville Fire Protection District was incorporated in the Province of British Columbia by Letters Patent on August 29, 1947. The District was formed for the purpose of providing fire protection to the Merville area. Under Section 149(1)(c) of the Income Tax Act, the Fire Protection District is exempt from taxation.

2. Dissolution

Effective June 15, 2017, by order of Lieutenant Governor in Council, the Letters Patent incorporating the Merville Fire Protection District were revoked, and the rights, property and assets of the District were transferred to and vested in the Comox Valley Regional District. All obligations of the District were transferred to and assumed by the Comox Valley Regional District. The acquisition, maintenance and operation of works for waterworks purposes and for irrigation purposes, and all matters incidental to those purposes, are continued as a service of the Comox Valley Regional District.

Since operations will continue under Comox Valley Regional District, these consolidated financial statements have been prepared on a going concern basis, using carrying values for all balances (no balances have been adjusted to liquidation values).

3. Significant accounting policies

The consolidated financial statements of the District are prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies are as follows:

a) Revenue recognition

Revenue is accounted for in the period in which the transactions or events occur that give rise to the revenue. Government transfers, such as the property tax levy, are recognized as revenue when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled. Interest and other income is recognized as revenue, when received.

b) Measurement uncertainty

The preparation of 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 revenue and expenses during the reporting period.

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 earnings in the periods in which they become known

c) 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 life as follows:

Tank sites (water tanks, fire hydrant and fencing)	40 years
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Tangible capital assets received as contributions are recorded at their fair value at the date of receipt. In the year of acquisition, amortization is taken at one half of the above rates

Merville Fire Protection District
Notes to the Consolidated Financial Statements

For the six month period ended June 14, 2017 and the year ended December 31, 2016

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

d) 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 June 14, 2017 and December 31, 2016.

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.

4. Reserve fund

	<i>As at June 14, 2017</i>	<i>As at December 31, 2016</i>
Continuity:		
Balance, beginning of year	292,908	275,272
Maintenance and replacement reserve funding	920	2,000
Fire hall funding	10,582	15,574
	304,410	292,846
End of year balance comprised of:		
Maintenance and replacement reserve	51,156	50,236
Fire hall reserve	253,254	242,610
	304,410	292,846

5. Tangible capital assets

	<i>As at June 14, 2017</i>	<i>As at December 31, 2016</i>
Balance, beginning of year	46,469	48,107
Amortization	(752)	(1,638)
	45,717	46,469

6. Environmental regulations

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.

Merville Fire Protection District

Notes to the Consolidated Financial Statements

For the six month period ended June 14, 2017 and the year ended December 31, 2016

7. Financial instruments

The District as part of its operations carries a number of financial instruments. The District's financial instruments consist of cash 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.

8. Access to water sources

The District has access to a number of water sources, including water towers and ponds which are not included on the financial statements. These sources are on personal property of Merville citizens, and do not belong to the District. No amount has been recorded in the financial statements for these access rights and assets.

9. Accumulated surplus

The District follows the normal practice for improvement district accounting according to the principles of fund accounting. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

The Reserve Fund is used to account for funds set aside for the purchase of a new fire hall and equipment, as well as maintenance of the District's tangible capital assets.

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.

	<i>As at June 14, 2017</i>	<i>As at December 31, 2016</i>
Fund balances:		
Operating fund	60,873	75,407
Equity in tangible capital assets (Note 5)	45,717	46,469
Reserve fund (Note 4)	304,410	292,846
	411,000	414,722

10. Budget

The 2017 budget has been pro-rated from January 1, 2017 to June 14, 2017. Reconciliation between the financial statement presentation and approved budget is as follows:

	<i>Six month period ended June 14, 2017</i>	<i>Year ended December 31, 2016</i>
Budgeted annual surplus (<i>Schedule 2, Schedule 3</i>)	10,582	15,574
Less: Fire hall reserve allocation	(10,582)	(15,574)
	0	0

Merville Fire Protection District
Schedule 1 - Consolidated Schedule of Tangible Capital Assets
As at June 14, 2017 and December 31, 2016

	General Tank Sites	
	At June 14, 2017	December 31, 2016
Cost		
Balance, beginning of year	65,543	65,543
Add:		
Aquisitions during the year	-	-
Less:		
Disposals during the year	-	-
Balance, end of year	65,543	65,543
Accumulated amortization		
Balance, beginning of year	19,074	17,436
Add:		
Amortization	752	1,638
Less:		
Accumulated amortization on disposals	-	-
Balance, end of year	19,826	19,074
Net book value of tangible capital assets	45,717	46,469

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Merville Fire Protection District
Schedule 2 - Statement of Operations - Comparison to budget
For the six month period ended June 14, 2017

	2017 Budget (Note 10)	2017
Revenue		
Property tax levy	98,926	98,921
Interest income	-	1,568
	98,926	100,489
Fire protection services		
Amortization	-	752
Fire protection charges	82,500	100,959
System and hydrant upgrade and maintenance	1,833	-
	84,333	101,711
Administrative services		
Advertising	183	-
Insurance	985	-
Office	69	-
Professional fees	2,750	2,500
Rental	23	-
	4,010	2,500
Total expenses	88,344	104,211
Annual surplus (deficit)	10,582	(3,722)

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

Merville Fire Protection District
Schedule 3 - Statement of Operations - Comparison to budget
For the year ended December 31, 2016

	2016 Budget (Note 10)	2016
Revenue		
Property tax levy	215,839	215,839
Interest income	-	3,749
	215,839	219,588
Fire protection services		
Amortization	-	1,638
Fire protection charges	188,000	188,607
System and hydrant upgrade and maintenance	4,000	177
	192,000	190,422
Administrative services		
Advertising	400	-
Insurance	2,150	2,150
Office	165	-
Professional fees	5,500	3,092
Rental	50	50
	8,265	5,292
Total expenses	200,265	195,714
Annual surplus	15,574	23,874

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

**Merville Fire Protection District
Report to the Board of Directors**

For the year ended December 31, 2016 and the period ended June 14, 2017
For presentation at the Board of Directors meeting

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November 14, 2017

Board of Directors
Comox Valley Regional District
500 Comox Road
Courtenay, BC V9N 3P6

Re: Audit findings report to the Comox Valley Regional District Board of Directors for the six month period ended June 14, 2017 and the year ended December 31, 2016

Dear Board of Directors:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of Merville Fire Protection District (the "District") as at June 14, 2017 and December 31, 2016. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Board of Directors.

THE AUDIT

Our responsibility, as auditor of the District, is to report to the members on the fair presentation of the June 14, 2017 and December 31, 2016 financial statements, in accordance with Canadian public sector accounting standards. To properly discharge this responsibility, we designed our audit process to assess the risk of material misstatement within the statements by examining and assessing the effectiveness of the District's controls and accounting systems, and the evidence supporting the amounts and disclosures in the statements, including the appropriateness of accounting principles and significant estimates made by management.

We have considered the District's internal controls as part of the financial statement audit. This included obtaining an understanding of the internal controls (regardless of whether we intended to rely on them for the purpose of our audit); evaluating the design of these controls; and determining whether they have been implemented. This understanding was sufficient to allow us to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures. We have not determined whether relevant controls are operating effectively, as such, our understanding of internal controls should not be relied upon for any other purposes.

Our audit procedures, consisting of separate examination of each material year-end balance, key transaction, and other event considered significant to the consolidated financial statements, were concentrated in areas where risks were identified, and therefore, differences were most likely to arise.

Management has provided us with written representations, acknowledging, among other things, their responsibility for the implementation and maintenance of appropriate reporting systems and controls, including those designed to detect and prevent fraud, and to ensure the appropriateness of the amounts recorded in the accounting records, and the amounts and disclosures in the consolidated financial statements.

AUDITOR INDEPENDENCE

We confirm to the Board of Directors that we are independent of the District. Our letter to the Board of Directors discussing our independence is attached to this report.

AUDIT RESULTS

We have satisfactorily completed our audit and are prepared to sign our Auditors' Report after the Board of Directors's review and approval of the financial statements. A substantive approach was used in auditing the District's consolidated financial statements; thus, the District's controls were not relied upon.

Final materiality calculated and used to assess the significance of misstatements or omissions identified during the audit and determine the level of audit testing performed was \$17,500.

The Auditors' Report will provide an unqualified opinion to the Directors. Key matters noted during our audit are summarized in the table below.

Subjects	July 14, 2017	December 31, 2016
<ul style="list-style-type: none"> Material uncertainties related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern 	The District was dissolved as of June 15, 2017 and assets and liabilities transferred to the Comox Valley Regional District	None
<ul style="list-style-type: none"> Illegal or fraudulent acts 	None noted	None noted
<ul style="list-style-type: none"> Non-compliance with laws and regulations 	None	None
<ul style="list-style-type: none"> Fraud by employees/management with key roles in control activities 	None noted	None noted
<ul style="list-style-type: none"> Differences that may: <ul style="list-style-type: none"> Have a material effect on comparative information and the current period financial statements Cause future statements to be materially misstated Indicate significant deficiencies in controls 	None None None	None None None
<ul style="list-style-type: none"> Irregularities having a material consolidated financial statement effect 	None	None
<ul style="list-style-type: none"> Limitations placed on the scope of our audit 	None	None
<ul style="list-style-type: none"> Significant transactions not in the ordinary course of business, or other unusual related party transactions 	None	None
<ul style="list-style-type: none"> Unusual significant transactions given the entity and its environment 	None	None
<ul style="list-style-type: none"> Non-monetary transactions 	None	None
<ul style="list-style-type: none"> Transactions that increase risk 	None	None
<ul style="list-style-type: none"> Concerns with management breach of corporate conduct 	None	None

Subjects	July 14, 2017	December 31, 2016
• Conflicts of interest	None	None
• Disagreements with management	None	None
• Emphasis of matter or other matter paragraph included in the Auditors' Report	None	None
• Matters influencing audit appointment	None	None
• Difficulties encountered during the audit	None	None
• Disagreements with management's accounting estimates	None	None
• Disagreements with management's adoption of accounting policies or emphasis on the need for a particular accounting treatment	None	None
• Significant deficiencies in the entity's risk assessment process within the design and/or implementation of controls	Control testing was not performed by MNP	Control testing was not performed by MNP
• Significant deficiencies in controls resulting from inappropriate response by management regarding implementing controls over significant risks	Control testing was not performed by MNP	Control testing was not performed by MNP
• Matters giving rise to questions regarding the honesty and integrity of management	None	None

All significant management estimates were reviewed and no material differences were noted. The methodologies and processes used by management were consistent with prior periods.

There were no unadjusted differences of any significance noted.

We would like to take this opportunity to formally acknowledge the excellent cooperation and assistance we received from Kevin Douville and the staff of the Comox Valley Regional District.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We appreciate having the opportunity to meet with you and respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

MNP LLP

MNP LLP
Chartered Professional Accountants

INDEPENDENCE COMMUNICATION

November 14, 2017

The Board of Directors
Comox Valley Regional District, on behalf of:

Merville Fire Protection District
PO Box 133
Merville, BC V0R 2M0

Dear Members of the Board:

We have been engaged to audit the consolidated financial statements of Merville Fire Protection District ("the District") as at June 14, 2017 and December 31, 2016 and for the six month period ended June 14, 2017 and the year ended December 31, 2016.

CAS 260 *Communication With Those Charged With Governance* requires that we communicate at least annually with you matters that are significant to our engagement. One such matter is relationships between the District and its related entities or persons in financial reporting oversight roles at the District and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client or a related entity;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
- (d) Economic dependence on a client; and
- (e) Provision of non-assurance services in addition to the audit engagement.

We are not aware of any relationship between the District and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2016 to November 14, 2017.

We hereby confirm that MNP is independent with respect to the District within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of British Columbia as of November 14, 2017.

This report is intended solely for the use of the Board of Directors, management and others within the District and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,

MNP LLP

MNP LLP
Chartered Professional Accountants