AGENDA

SPECIAL MEETING OF COUNCIL

Thursday, June 18, 2015

7:30 p.m.

George Fraser Room, Ucluelet Community Centre

500 Matterson Drive,

Ucluelet, B.C.

Council Members:
Mayor Dianne St. Jacques
Councillor Sally Mole
Councillor Randy Oliwa
Councillor Marilyn McEwen
Councillor Mayco Noel

DISTRICT OF UCLUELET

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District of Ucluelet
500 Matterson Drive,
Ucluelet, BC, Canada V0R 3A0
250-726-7744
www.ucluelet.ca

SPECIAL MEETING OF COUNCIL

7:30 p.m.
Thursday, June 18, 2015
George Fraser Room, Ucluelet Community Centre,
500 Matterson Drive, Ucluelet

AGENDA

1. CALL TO ORDER

2. ADOPTION OF MINUTES

N/A

3. PUBLIC INPUT, DELEGATIONS & PETITIONS

4. CORRESPONDENCE

None

5. INFORMATION ITEMS

None

6. REPORTS

6.1. **2014 Audited Financial Statements** **p.5**
Jeanette O'Connor, Chief Financial Officer

7. LEGISLATION

None

8. LATE ITEMS

N/A

9. NEW BUSINESS

10. QUESTION PERIOD

11. CLOSED SESSION

This meeting may be closed to the public where items for consideration meet the requirements of Section 90 of the *Community Charter.*

12. ADJOURNMENT

DISTRICT OF UCLUELET

REPORT TO COUNCIL

MEETING DATE:	June 18, 2015	FILE NO:	1830-01 2014
FROM:	Jeanette O'Connor, Chief Financial Officer		
SUBJECT:	DRAFT FINANCIAL STATEMENTS, 2014		

Recommendation: Council receive and accept the District of Ucluelet, Draft Financial Statements and the Audit Finding Report for the year ended December 31, 2014.

Purpose: New Canadian auditing standards dictate Council must approve the financial statements prior to the auditor dating and releasing the audit report.

Background: The firm of KPMG LLP has completed their audit of the amounts and disclosures in the financial statements for 2014. In the opinion of KPMG LLP the 2014 draft financial statements present fairly, in all material respects, the financial position of the District of Ucluelet as at December 31, 2014 and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

List of Attachments:

District of Ucluelet draft financial statements for the year ended December 31, 2014.

District of Ucluelet audit findings report for the year ended December 31, 2014.

Jeanette O'Connor
Chief Financial Officer

DRAFT Consolidated Financial Statements of

DISTRICT OF UCLUELET

Year ended December 31, 2014

DISTRICT OF UCLUELET

Consolidated Financial Statements

DRAFT

Year ended December 31, 2014

Index:

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MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of the District of Ucluelet (the "District") are the responsibility of management and have been prepared in compliance with applicable legislation, and in accordance with generally accepted accounting standards for local governments as established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The District's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

Mayor and Council meet with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the District. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the District's financial statements.

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Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Mayor and Councillors of The District of Ucluelet

We have audited the accompanying consolidated financial statements of The District of Ucluelet, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising 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 consolidated 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 our 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, we consider 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 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 consolidated financial position of The District of Ucluelet as at December 31, 2014, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants

Month DD, YYYY
Victoria, Canada

DISTRICT OF UCLUELET

Consolidated Statement of Financial Position

DRAFT

December 31, 2014, with comparative information for 2013

	2014	2013
Financial assets:		
Cash and cash equivalents (note 3)	$ 4,214,149	$ 2,519,595
Restricted cash	27,422	26,650
Accounts receivable (note 4)	1,358,077	2,136,735
Properties held for sale	79,998	31,197
	5,679,646	4,714,177
Financial liabilities:		
Accounts payable and accrued liabilities (note 5)	767,792	901,405
Refundable deposits	30,066	34,158
Deferred revenue (note 6)	335,493	865,941
Development cost charges (note 7)	811,674	806,928
Debt (note 8)	1,863,522	1,923,647
	3,808,547	4,532,079
Net financial assets	1,871,099	182,098
Non-financial assets:		
Tangible capital assets (note 9)	37,624,212	36,771,528
Work in progress (note 10)	-	1,804,610
Inventory of supplies	34,134	44,384
Prepaid expenses	59,203	29,841
Commitments and contingencies (note 16)		
Accumulated surplus (note 11)	$ 39,588,648	$ 38,832,461

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

On behalf of the District:

____________________________ Chief Financial Officer

DISTRICT OF UCLUELET

Consolidated Statement of Operations

DRAFT

Year ended December 31, 2014, with comparative information for 2013

	Financial plan (note 17)	2014	2013
Revenue:			
Taxation, net (note 12)	$ 2,547,393	$ 2,780,591	$ 2,763,901
Sale of services	1,717,865	1,540,448	1,534,720
Other revenue from own sources	153,050	285,442	719,487
Investment income	-	39,596	66,322
Grants and contributions (note 13)	484,693	1,197,329	1,261,530
Total revenue	4,903,001	5,843,406	6,345,960
Expenses:			
General government services	1,098,470	911,965	1,405,889
Protective services	489,591	317,349	338,184
Transportation services	1,179,610	1,193,706	1,078,798
Planning and environmental services	344,422	302,728	276,646
Recreation and cultural services	1,415,330	1,276,176	1,316,574
Sewer utility	429,194	519,226	489,260
Water utility	593,168	566,069	486,485
	5,549,785	5,087,219	5,391,836
Annual surplus (deficit)	(646,784)	756,187	954,124
Accumulated surplus, beginning of year	38,832,461	38,832,461	37,878,337
Accumulated surplus, end of year	$ 38,185,677	$ 39,588,648	$ 38,832,461

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

DISTRICT OF UCLUELET

Consolidated Statement of Change in Net Financial Assets

DRAFT

Year ended December 31, 2014, with comparative information for 2013

	Financial plan (note 17)	2014	2013
Annual surplus (deficit)	$ (646,784)	$ 756,187	$ 954,124
Acquisition of tangible capital assets	(78,982)	(186,328)	(2,060,969)
Amortization of tangible capital assets	970,000	1,102,120	995,242
Loss on disposal of work in progress	-	36,134	-
	891,018	951,926	(1,065,727)
Net acquisition of inventory of supplies	-	10,250	10,000
Net acquisition (consumption) of prepaid expenses	-	(29,362)	20,909
Change in net financial assets (debt)	244,234	1,689,001	(80,694)
Net financial assets, beginning of year	182,098	182,098	262,792
Net financial assets, end of year	$ 426,332	$ 1,871,099	$ 182,098

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

DISTRICT OF UCLUELET

Consolidated Statement of Cash Flows

DRAFT

Year ended December 31, 2014, with comparative information for 2013

		2014		2013
Cash provided by (used in):				
Operating activities:				
Annual surplus	$	756,187	$	954,124
Items not involving cash:				
Amortization of tangible capital assets		1,102,120		995,242
Loss on disposal of work in progress		36,134		-
Actuarial adjustment on debt		(15,460)		(12,263)
Change in non-cash operating assets and liabilities:				
Accounts receivable		778,658		(249,135)
Properties held for sale		(48,801)		(2,484)
Accounts payable and accrued liabilities		(133,613)		(36,062)
Refundable deposits		(4,092)		500
Deferred revenue		(530,448)		(173,270)
Development cost charges		4,746		(387,636)
Inventory of supplies		10,250		10,000
Prepaid expenses		(29,362)		20,909
		1,926,319		1,119,925
Capital activities:				
Acquisition of tangible capital assets		(186,328)		(1,011,010)
Acquisition of work in progress		-		(1,049,959)
		(186,328)		(2,060,969)
Investing activities:				
Increase in restricted cash		(772)		(1,239)
Financing activities:				
Proceeds on debt		43,700		-
Capital lease repaid		(26,648)		(20,903)
Debt repaid		(61,717)		(61,826)
		(44,665)		(82,729)
Increase (decrease) in cash and cash equivalents		1,694,554		(1,025,012)
Cash and cash equivalents, beginning of year		2,519,595		3,544,607
Cash and cash equivalents, end of year	$	4,214,149	$	2,519,595
Supplemental cash flow information:				
Cash paid for interest	$	82,360	$	82,360
Cash received from interest		39,596		66,514

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

District of Ucluelet (the "District") is a municipality in the Province of British Columbia and operates under the provisions of the Local Government Act and the Community Charter of British Columbia. The District's principal activities include the provision of local government services to residents of the incorporated area.

1. Significant accounting policies:

The consolidated financial statements of the District are prepared by management in accordance with Canadian public sector accounting standards for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the District are as follows:

(a) Reporting entity:

The consolidated financial statements reflect the combination of all the assets, liabilities, revenues, expenses, and accumulated surplus of the District. Inter-departmental balances and transactions have been eliminated. The consolidated financial statements of the District also include the activities of the Ucluelet Economic Development Corporation which is owned by the District. The District administers certain trust assets on behalf of external parties which are excluded from the financial statements.

(b) Basis of accounting:

The District 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 receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Government transfers are recognized in the consolidated financial statements as revenues 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.

(d) Property tax revenue:

Property tax revenue is recognized on the accrual basis using the approved tax rates and the anticipated assessment related to the current year.

1. Significant accounting policies (continued):

(e) Deferred revenue:

Deferred revenue includes grants, contributions and other amounts received from third parties pursuant to legislation, regulation and agreement which may only be used in certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed, or the tangible capital assets are acquired, thereby extinguishing the related liability.

(f) Development cost charges:

Development cost charges are amounts which are restricted by government legislation or agreement with external parties. When qualifying expenditures are incurred development cost charges are recognized as revenue in amounts which equal the associated expenses.

(g) Cash and cash equivalents:

Cash and cash equivalents include short-term, highly liquid investments with a term to maturity of 90 days or less at acquisition. Cash equivalents also include investments in the Municipal Finance Authority of British Columbia ("MFA") Money Market Funds which are recorded at cost plus earnings reinvested in the funds.

(h) Deposits and prepayments:

Receipts restricted by third parties are deferred and recorded as deposits and are refundable under certain circumstances. Deposits and prepayments are recognized as revenue when qualifying expenditures are incurred.

(i) Employee future benefits:

The District and its employees make contributions to the Municipal Pension Plan. These contributions are expensed as incurred.

Sick leave and other benefits are available to the District's employees. The costs of these benefits are estimated based on accumulated sick leave and best estimates of future usage and expected future salary and wage increases. The obligations under these benefit plans are accrued based on projected benefits as the employees render services necessary to earn the future benefits.

1. Significant accounting policies (continued):

(j) Properties held for sale:

Properties held for sale represent tax sale properties which are ready and available to be sold. They are valued at lower of cost or expected net realizable value. No amortization is recorded on properties held for sale.

(k) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on deferred revenue, development cost charges and deposits and prepayments is added to the investment and forms part of the liability balance.

(l) Debt:

Debt is recorded net of related payments and actuarial earnings.

(m) 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.

(i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Buildings	10 - 60
Equipment	5 - 25
Other structures	15 - 50
Roads	40 - 60
Sewer structures	10 - 50
Drainage structures	30 - 50
Water structures	10 - 50

Amortization is charged annually, including in the year of acquisition and disposal.

1. Significant accounting policies (continued):

Assets under construction are not amortized until the asset is available for productive use.

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

(l) Non-financial assets (continued):

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Natural resources

Natural resources that have not been purchased are not recognized as assets in the consolidated financial statements.

(iv) Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets in these consolidated financial statements.

(v) Interest capitalization

The District does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(vi) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(vii) Inventory of supplies

Inventory of supplies held for consumption are recorded at lower of cost and replacement cost.

1. Significant accounting policies (continued):

(n) Use of estimates:

The preparation of financial statements 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 revenues and expenses during the period. Significant estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets and estimating provisions for accrued liabilities including employee future benefits and contingencies. Actual results could differ from these estimates.

2. Comparative information:

Certain 2013 comparative information has been reclassified to conform with the financial statement presentation adopted for the current year.

3. Cash and cash equivalents:

Cash and cash equivalents is comprised of the following:

	2014	2013
Bank deposits	$ 2,574,849	$ 1,122,850
GIC's	14,347	44,445
MFA Money Market Funds	1,624,953	1,352,300
Total	$ 4,214,149	$ 2,519,595

4. Accounts receivable:

	2014	2013
Property taxes	$ 1,100,541	$ 1,437,009
Due from other governments	54,989	28,963
General, business licenses, utilities	149,538	614,685
Other	53,009	56,078
	$ 1,358,077	$ 2,136,735

5. Accounts payable and accrued liabilities:

		2014		2013
Trade accounts payable	$	535,708	$	669,970
Salaries and wages payable		57,541		45,423
Accrued employee benefits		118,418		106,116
Due to other governments		29,879		53,679
Accrued interest		15,442		15,442
Other		10,804		10,775
	$	767,792	$	901,405

6. Deferred revenue:

		2014		2013
Federal Gas Tax Agreement	$	-	$	788,182
Hotel resort tax		238,922		45,893
Property taxes		15,226		19,356
Grants		67,218		6,603
Other		14,127		5,907
Total deferred revenue	$	335,493	$	865,941

The District receives Gas Tax funds from the Federal Government through an agreement with the Union of BC Municipalities. Effective April 1, 2014 the agreements were revised for all new funding and for amounts unspent from prior periods. The new agreement broadened the scope of eligible expenditures for these funds and eliminated certain potential repayment criteria. These changes have resulted in a change in the accounting from the previous policy to defer such funds until eligible expenditures were incurred to recognize all amounts into revenue when received, including recognizing as revenue all amounts previously deferred. The change in the Federal Gas Tax Agreement during the year is as follows:

Gas Tax Agreement Funds

		2014		2013
Opening balance of unspent funds	$	788,182	$	569,949
Add amounts received during the year		117,188		218,233
		905,370		788,182
Less amount recognized in revenue		(905,370)		-
	$	-	$	788,182

7. Development cost charges:

Development cost charges are restricted revenue liabilities representing funds received from developers and deposited into a separate reserve fund for capital expenditures. The District records these funds as a liability upon receipt which is then recognized as revenue when the related costs are incurred.

	Opening balance	Net receipts	Draw down	Interest	Closing balance
Roads	$ 15,390	$ -	$ -	$ 90	$ 15,480
Storm water	196,986	-	-	1,159	198,145
Sewer	403,477	-	-	2,373	405,850
Water	43,525	-	-	256	43,781
Parks	147,550	-	-	868	148,418
	$ 806,928	$ -	$ -	$ 4,746	$ 811,674

8. Debt:

(a) The District issues debt instruments through the Municipal Finance Authority (MFA), pursuant to security issuing bylaws under authority of the Local Government Act, to finance certain capital expenditures.

	Gross debt	Repayments and actuarial earnings	Net debt 2014	Net debt 2013
MFA Issue 117	$ 1,948,000	$ 147,294	$ 1,800,706	$ 1,851,742
MFA Issue 73	300,000	273,792	26,208	52,350
Debt	2,248,000	421,086	1,826,914	1,904,092
Capital lease obligations	43,700	7,092	36,608	19,555
	$ 2,291,700	$ 428,178	$ 1,863,522	$ 1,923,647

As a condition of the borrowing through the MFA, the District is obligated to lodge security by means of demand notes and interest bearing cash deposits based on the amount of the borrowing. The deposits are included in the District's financial statements as restricted cash. If the debt is repaid without default, the deposits are refunded to the District. The notes, which are contingent in nature, are held by the MFA to act as security against the possibility of debt repayment default and are not recorded in the financial statements. Upon the maturity of a debt issue the demand notes are released and deposits refunded to the District. As at December 31, 2014, there were contingent demand notes of $49,094 (2014 - $49,094) which are not included in the financial statements of the District.

8. Debt (continued):

The loan agreements with the Alberni-Clayoquot Regional District and the MFA provide that, if at any time the scheduled payments provided for in the agreements are not sufficient to meet the MFA's obligations in respect to such borrowings, the resulting deficiency becomes a liability of the District.

(b) Principal and interest payments on debt for the next five years are as follows:

2015	$ 144,077
2016	110,085
2017	110,085
2018	110,085
2019	110,085

(c) Interest expense:

Interest paid during the year was $82,360 (2013 - $82,360).

(d) The District leases certain municipal hall and fire department equipment under capital lease agreements. The District will acquire ownership of the equipment at the end of the lease term. Principle and interest repayments are due as shown.

2015	$ 10,553
2016	9,192
2017	9,192
2018	9,014
	37,951
Less amount representing interest (at a rate of prime plus 1%)	(1,343)
Present value of net minimum capital lease payments	$ 36,608

9. Tangible capital assets:

	Land	Sewer structures	Buildings	Vehicles and equipment	Other structures	Roads	Drainage structures	Water structures	Total 2014
Cost:									
Balance, beginning of year	$11,588,490	8,432,650	10,905,180	2,388,705	2,928,496	7,540,125	1,559,012	3,948,239	$49,290,897
Additions	-	202,208	28,083	43,610	141,717	1,518	-	1,537,668	1,954,804
Balance, end of year	11,588,490	8,634,858	10,933,263	2,432,315	3,070,213	7,541,643	1,559,012	5,485,907	51,245,701
Accumulated amortization:									
Balance, beginning of year	-	3,539,988	1,490,486	1,147,273	1,118,207	2,899,481	507,282	1,816,652	12,519,369
Amortization	-	205,655	223,403	157,880	138,715	187,676	35,933	152,858	1,102,120
Balance, end of year	-	3,745,643	1,713,889	1,305,153	1,256,922	3,087,157	543,215	1,969,510	13,621,489
Net book value, end of year	$11,588,490	4,889,215	9,219,374	1,127,162	1,813,291	4,454,486	1,015,797	3,516,397	$37,624,212

9. Tangible capital assets (continued):

	Land	Sewer structures	Buildings	Vehicles and equipment	Other structures	Roads	Drainage structures	Water structures	Total 2013
Cost:									
Balance, beginning of year	$11,475,202	8,375,217	10,602,588	2,249,851	2,928,496	7,268,856	1,413,540	3,697,883	48,011,633
Additions	113,288	57,433	302,592	138,854	-	271,269	145,472	250,356	1,279,264
Write down	-	-	-	-	-	-	-	-	-
Balance, end of year	11,588,490	8,432,650	10,905,180	2,388,705	2,928,496	7,540,125	1,559,012	3,948,239	49,290,897
Accumulated amortization:									
Balance, beginning of year	-	3,347,947	1,269,265	1,005,518	990,942	2,719,813	474,373	1,716,269	11,524,127
Amortization	-	192,041	221,221	141,755	127,265	179,668	32,909	100,383	995,242
Balance, end of year	-	3,539,988	1,490,486	1,147,273	1,118,207	2,899,481	507,282	1,816,652	12,519,369
Net book value, end of year	$11,588,490	4,892,662	9,414,694	1,241,432	1,810,289	4,640,644	1,051,730	2,131,587	$36,771,528

9. Tangible capital assets (continued):

(a) Contributed tangible capital assets:

There were no contributed assets recognized during the year.

(b) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset has been recognized at a nominal value.

(c) Works of art and historical treasures:

The District manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at District sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(d) Write-down of tangible capital assets:

No write-down of tangible capital assets occurred during the year.

10. Work in progress:

	2013	Additions	Transfers and write-offs	2014
General government	$ 169,508	$ -	$ (169,508)	$ -
Sewer system	192,700	-	(192,700)	-
Water system	1,442,402	-	(1,442,402)	-
	$ 1,804,610	$ -	$ (1,804,610)	$ -

During the year there were work in progress additions of $nil (2013 - $1,049,959), write-offs of $36,134 for projects no longer being pursued (2013 - $nil) and transfers to tangible capital assets for completed projects of $1,768,477 (2013 - $268,254). Amortization of work in progress will commence in the year the asset is transferred to tangible capital assets and is put into service.

11. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2014	2013
Investment in tangible capital assets	$ 35,760,690	$ 36,652,491
Reserve funds and other surplus	2,922,588	2,179,970
Gas Tax Agreement Reserve	905,370	-
	$ 39,588,648	$ 38,832,461

12. Taxation:

Taxation revenue, reported on the statement of operations, is comprised of the following:

	2014	2013
Municipal purposes:		
General	$ 2,475,421	$ 2,461,190
Utility	39,057	38,004
Parcel taxes	203,080	200,420
Grants in lieu of taxes	63,033	64,287
	2,780,591	2,763,901
Taxes levied for other authorities:		
School authorities	1,301,315	1,409,414
RCMP	129,575	128,693
Regional Hospital	173,861	183,614
Regional District	210,465	233,920
BC Assessment Authority	32,628	35,164
Vancouver Island Regional Library	95,251	91,811
Municipal Finance Authority	100	108
	1,943,195	2,082,724
Total taxes collected	$ 4,723,786	$ 4,846,625

13. Grants and contributions:

The District recognizes the transfer of government funding received as revenues in the period that the events giving rise to the transfer occurred and the eligibility criteria have been met. Government transfers reported on the statement of operations are comprised of:

	2014	2013
Operating transfers:		
Small communities and equalization payments	$ 204,325	$ 205,605
Gas Tax Agreement Funds	905,370	132,360
Other	52,486	114,598
	1,162,181	452,563
Capital transfers	35,148	808,967
Total revenue	$ 1,197,329	$ 1,261,530

14. Pension plan:

The District and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The plan has about 182,000 active members and approximately 75,000 retired members. Active members include approximately 36,000 contributors from local government.

The most recent actuarial valuation as at December 31, 2012 indicated a $1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

The District paid $106,935 (2013 - $108,202) for employer contributions to the plan in fiscal 2014.

15. Trust funds:

Trust funds administered by the District have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations. The District holds trust funds under British Columbia law for the purposes of maintaining a public cemetery.

	2014	2013
Opening balance	$ 24,994	$ 24,858
Interest earned	30	116
Contribution	-	20
Ending balance	$ 25,024	$ 24,994

16. Commitments and contingencies:

(a) Debt issued by the Regional District of Alberni Clayoquot ("RDAC"), under provisions of the Local Government Act, is a direct, joint and several liability of the RDAC and each member municipality within the RDAC, including the District.

(b) In the normal course of a year, claims for damages are made against the District. The District records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. The District is self-insured for general liability claims through membership in the Municipal Insurance Association of British Columbia. Under this program, member municipalities are to share jointly for general liability claims against any member in excess of $5,000. Should the Association pay out claims in excess of premiums received, it is possible that the District, along with the other participants, would be required to contribute towards the deficit.

17. Financial plan data:

The financial plan data presented in these financial statements is based upon the 2014 operating and capital budgets approved by Council on May 13, 2014. The chart below reconciles the approved financial plan to the financial plan figures reported in these financial statements.

	Financial plan amount
Revenues:	
Financial plan	$ 4,903,001
Total revenue	4,903,001
Expenses:	
Financial plan	5,567,405
Less cemetery expenses	(17,620)
Total expenses	5,549,785
Annual deficit	$ (646,784)

18. Segmented information:

The District is a diversified municipal organization that provides a wide range of services to its citizens. District services are provided by departments and their activities reported separately. Certain functions that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

General government

The general government operations provide the functions of corporate administration and legislative services and any other functions categorized as non-departmental.

Protective services

Protective services is comprised of three different functions, including the District's emergency management agency, fire, and regulatory services. The emergency management agency prepares the District to be more prepared and able to respond to, recover from, and be aware of, the devastating effects of a disaster or major catastrophic event that will impact the community. The fire department is responsible for providing critical, life-saving services in preventing or minimizing the loss of life and property from fire and natural or man-made emergencies. The mandate of the regulatory services is to promote, facilitate and enforce general compliance with the provisions of bylaws that pertain to the health, safety and welfare of the community and provide a full range of planning services related to zoning, development permits, variance permits, and current regulatory issues.

Transportation services

Transportation services is responsible for a wide variety of transportation functions such as roads

18. Segmented information (continued):

and streets. As well, services are provided around infrastructure, transportation planning, pedestrian and cycling issues, harbour facilities, and on-street parking regulations, including street signs and painting.

Planning and environmental services

Planning works to achieve the District's community planning goals through the official community plan, and other policy initiatives. Environmental services was established to assist the Emergency, Planning, Public Works, and Recreation Departments with programs associated with the maintenance or improvement of natural ecosystems.

Recreation and cultural services

Parks is responsible for the maintenance and development of all park facilities. Cultural services facilitate the provision of recreation and wellness programs and services.

Water and Sewer Utilities

The Water and Sewer Utilities operate and distribute the water and sewer networks. They are responsible for the construction and maintenance of the water and sewer distributions systems, including mains and pump stations.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

18. Segmented information (continued):

2014	General Government	Protective Services	Transportation Services	Planning and Environmental Services	Recreation and Cultural Services	Water Utility	Sewer Utility	Total
Revenue:								
Taxation, net	$ 2,577,511	$ -	$ -	$ -	$ -	$ 79,915	$ 123,165	$ 2,780,591
Sale of services	3,376	-	358,647	5,550	271,110	486,892	414,873	1,540,448
Grants and contributions	1,168,856	15,900	7,000	-	5,573	-	-	1,197,329
Investment income	39,596	-	-	-	-	-	-	39,596
Other revenue from own sources	164,704	76,686	-	42,992	-	400	660	285,442
Total revenue	3,954,043	92,586	365,647	48,542	276,683	567,207	538,698	5,843,406
Expenses:								
Salaries and wages	398,300	112,134	300,789	181,916	438,383	237,633	158,819	1,827,974
Contracted services	125,773	31,236	299,622	9,827	142,312	85,215	61,575	755,560
Materials and supplies	12,653	42,493	88,882	5,378	132,429	26,977	25,003	333,815
Interest and other	270,636	73,069	120,885	39,624	164,519	6,748	3,002	678,483
Audit and legal	40,645	2,138	27,170	65,983	-	-	-	135,936
Telephone and utilities	40,150	2,746	42,429	-	46,195	56,639	65,172	253,331
Amortization	23,808	53,533	313,929	-	352,338	152,857	205,655	1,102,120
Total expenses	911,965	317,349	1,193,706	302,728	1,276,176	566,069	519,226	5,087,219
Annual surplus (deficit)	$ 3,042,078	$ (224,763)	$ (828,059)	$ (254,186)	$ (999,493)	$ 1,138	$ 19,472	$ 756,187

18. Segmented information (continued):

2013	General Government	Protective Services	Transportation Services	Planning and Environmental Services	Recreation and Cultural Services	Water Utility	Sewer Utility	Total
Revenue:								
Taxation, net	$ 2,563,481	$ -	$ -	$ -	$ -	$ 78,870	$ 121,550	$ 2,763,901
Sale of services	2,447	-	325,865	5,500	332,463	474,978	393,467	1,534,720
Grants and contributions	754,830	15,900	7,000	-	83,800	400,000	-	1,261,530
Investment income	66,322	-	-	-	-	-	-	66,322
Other revenue from own sources	217,904	63,108	14,000	34,779	-	384,900	4,796	719,487
Total revenue	3,604,984	79,008	346,865	40,279	416,263	1,338,748	519,813	6,345,960
Expenses:								
Salaries and wages	438,618	115,298	307,842	180,684	430,169	259,719	163,416	1,895,746
Contracted services	295,069	25,180	280,058	20,667	179,089	22,351	65,224	887,638
Materials and supplies	258,981	29,125	98,873	7,556	120,360	52,692	17,739	585,326
Interest and other	264,814	103,483	45,027	28,244	181,134	789	291	623,782
Audit and legal	99,275	-	16,170	39,423	-	-	-	154,868
Telephone and utilities	49,132	3,654	37,940	72	57,335	50,551	50,550	249,234
Amortization	-	61,444	292,888	-	348,487	100,383	192,040	995,242
Total expenses	1,405,889	338,184	1,078,798	276,646	1,316,574	486,485	489,260	5,391,836
Annual surplus (deficit)	$ 2,199,095	$ (259,176)	$ (731,933)	$ (236,367)	$ (900,311)	$ 852,263	$ 30,553	$ 954,124

KPMG
cutting through complexity

AUDIT

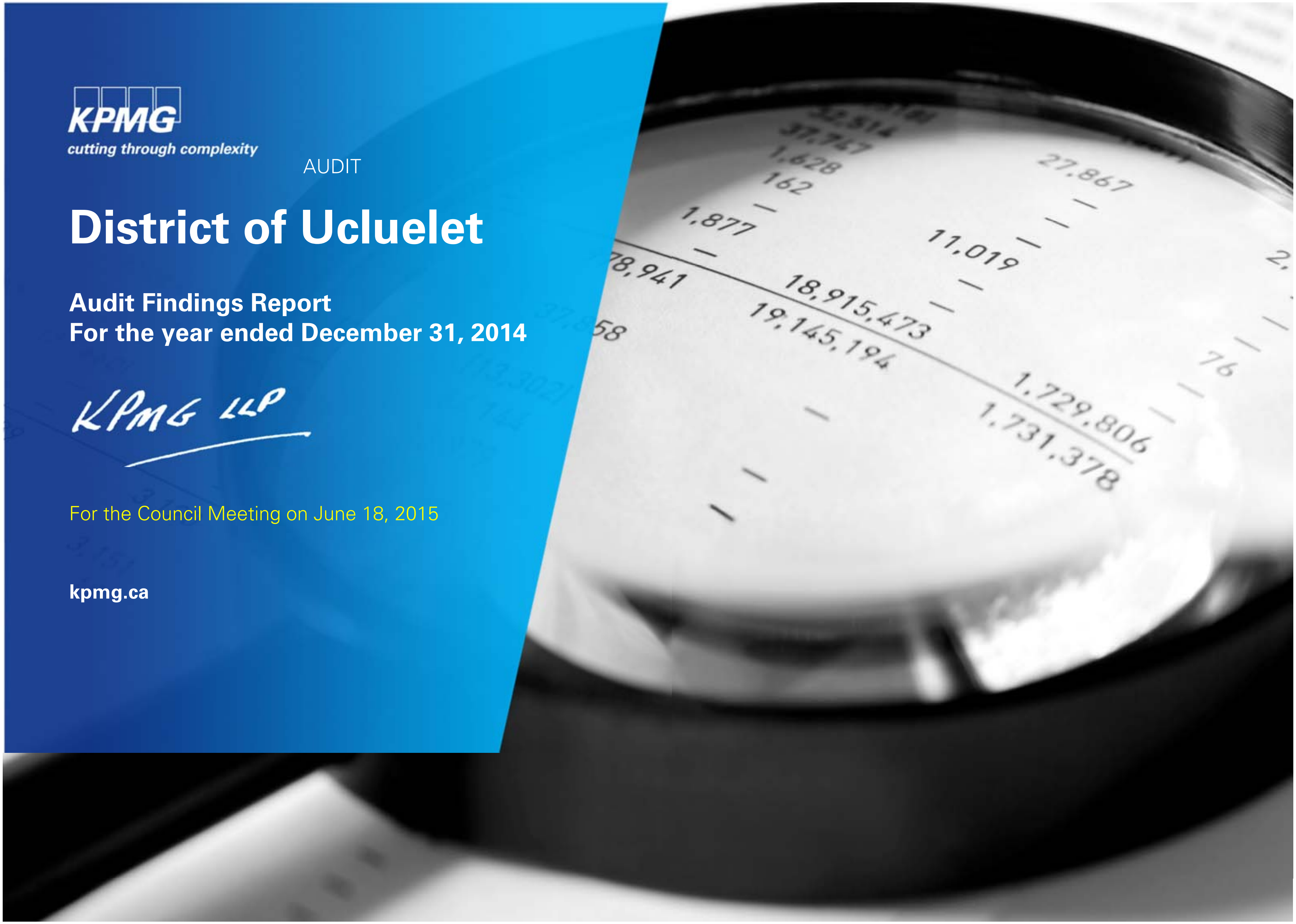
District of Ucluelet

Audit Findings Report
For the year ended December 31, 2014

KPMG LLP

For the Council Meeting on June 18, 2015

kpmg.ca



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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of Council, in your review of the results of our audit of the consolidated financial statements of District of Ucluelet as at and for the year ended December 31, 2014.

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 **$150,000.**

Audit risks and results

As part of our audit planning, we identified **significant financial reporting** risks that, by their nature, require special audit consideration.

By focusing on these risks, we established an overall audit strategy and effectively targeted our audit procedures. We are satisfied that our audit work has appropriately dealt with the risks.

Critical accounting estimates

Overall, we are satisfied with the reasonability of **critical accounting estimates** taken. The most critical areas of estimates relate to: the amortization of tangible capital assets, employee future benefit liabilities and estimates for contingent liabilities.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Independence

We are independent with respect to the District within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Control and other observations

We identified control deficiencies that we determined to be material weaknesses as well as other observations and recommendations.

See pages 14-15

***** This Audit Findings Report should not be used for any other purpose or by anyone other than the Mayor, Council and management of the District. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary (cont)

Finalizing the audit

As of June 18, 2015, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the District Council;
- obtaining evidence of Council's approval of the financial statements
- obtaining the signed management representation letter

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Adjustments and differences

All uncorrected audit differences are not considered material.

We identified adjustments that were communicated to management and subsequently corrected in the financial statements. Refer to Appendix 2 for Management's representation letter which includes a summary of corrected audit misstatements.

See pages 11-13 and Appendix 2

Responsibilities of KPMG and management

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated December 11, 2013.

Audit risks and results

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. The determination of materiality requires judgment and is based on a combination of quantitative and qualitative assessments, including the nature of account balances and financial statement disclosures.

We determine an audit misstatement posting threshold (from materiality) in order to accumulate misstatements identified during the audit.

For the current period, the following amounts have been determined:

Materiality	Audit Misstatement Posting Threshold
\$150,000 which has been set at 2.95% of expenses.	\$7,500, which has been set at 5% of materiality.

Materiality was \$150,000 in the prior year.

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as well as any additional significant risks identified.

Significant financial reporting risks

As part of our audit planning, we identified the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we established an overall audit strategy and effectively target our audit procedures.

The *significant* financial reporting risks identified during our audit planning are listed below:

Significant financial reporting risks	Our significant findings from the audit
Risk of management override: Required to be identified as a significant risk per professional standards.	We performed the required procedures under professional standards: • Test all material journal entries made in the preparation of the year-end financial statements, entries potentially related to fraud or management override of controls, and inspect the relevant documentation for authorization and appropriateness • A retrospective review of estimates, including the assumptions used by management • Evaluating the business rationale of significant unusual transactions We are satisfied that our audit work has appropriately dealt with the risk of management override.

Critical accounting estimates

Asset / liability	Balance	Highlights of audit procedures and KPMG comments
Useful lives of tangible capital assets	$37,624,212	• We recalculated and agreed the tangible capital asset continuity schedules to supporting detail and performed substantive analytical procedures on amortization expense. • We assessed the reasonability and consistency of managements' estimates of useful lives for the various categories of assets.
Estimates for contingent liabilities	$50,000	• We have performed inquiries with management and reviewed meeting minutes and other documentation. • We have confirmed with external legal counsel the existence and status of known and potential claims that could result in loss to the District. • Management estimates potential future payment related to legal settlement costs of $50,000. Management anticipates that most open claims will be covered by insurance. • Although an estimate of the claims has been prepared, actual settlements may vary due to the numerous factors involved in each case and the significant range of possible outcomes.

We believe management's process for identifying critical accounting estimates is considered adequate.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the District's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

Application of accounting pronouncements issued but not yet effective	Contaminated Sites • The Public Sector Accounting Board ('PSAB') has issued PS 3260 *Liability for Contaminated Sites* ("PS 3260"), which requires the recognition, measurement and disclosure of liabilities resulting from remediation of contaminated sites • PS 3260 applies to fiscal years beginning on or after April 1, 2014, meaning the District will be required to report liabilities under this standard for the year ended December 31, 2015 and for all reporting periods thereafter We recommend management begin to prepare for future application of the pronouncement.

Other matters

Professional standards require us to communicate to Council Other Matters, such as identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the District's related parties, significant difficulties encountered during the audit, and disagreements with management.

None of the above described matters were noted.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Recognition of Gas Tax Funding In prior periods Gas Tax funding was deferred until spent since the agreement with the UBCM contained specific stipulations as to how the funds must be spent as well as repayment requirements in the event of ineligible expenditures or disposition of assets purchased. During 2014, a new gas tax agreement was signed which significantly broadened the scope of eligible expenditures and removed repayment terms. Further, the new agreement eliminated certain potential repayment criteria which existed in the previous agreement.	• We read the new agreement the District established with the UBCM, particularly noting the expansion of allowable eligible expenditures. • Given these changes to the agreement, amounts are now recognized into revenue when received, including the recognition of all amounts previously deferred. • Accordingly, the full amount of Gas Tax received in 2014 and earlier years of $905,370 was recognized into revenue in 2014. We recommend that management set up a reserve account to internally restrict and facilitate accountability and reporting of gas tax revenues received for future eligible capital projects.
Reserves In past years the District has established various reserve accounts into which surplus has been allocated. The accuracy of the additions and reductions in reserve accounts is not reviewed nor reconciled on a periodic basis.	• Disclosure of individual reserve balances is not required in the financial statements under public sector accounting standards, however it is important for accountability purposes for reserve balances to be accurate and monitored routinely. We recommend that a comprehensive review be performed on these balances and that a policy be put in place to designate statutory reserves and set up recommendations for minimum account balances.
Amenity Payment The District has explained that $1,000,000 is owed for an amenity payment on a property. Past attempts to collect this payment have been unsuccessful.	• The outstanding payment is expected to be collected if the property owner tries to develop the property in the future. • Given that collection is uncertain at December 31, 2014 and it is contingent on the future property development, Management has not recorded a receivable or revenue. We concur with this treatment.

	• If circumstances change in the future and the amounts become collectible, a receivable and future revenue may be recorded.
Work in progress ("WIP") The WIP accounts accumulated to over $1.8M in past years given the significant projects the District had undertaken. In 2014, the WIP balance decreased to zero.	• We obtained an understanding of the WIP projects capitalized during the year. We performed substantive testing to verify that the balances capitalized relate to assets providing future benefit or service capacity to the municipality. • During our testing we noted one project – Peninsula Road, Phase 2 which had an accumulated WIP balance of $36,133 with no work being performed since 2008. Our inquiries and discussion with management provided information that the costs were for engineering designs on Peninsula Road and that the project had since been abandoned. Accordingly, we recommended the project be written off. Management has agreed with our recommendation and the project was removed from the Capital Asset WIP accounts and expensed during the year. • We concur with management's treatment of the remaining WIP balances and the projects have now been put into service and are being amortized.
School Tax and Home Owner Grants We have drafted an audit opinion on the District's Form C2 - Home owner grant requirements as well as an audit opinion on the District's compliance with Section 124 of Part 8 of the School Act.	Management has a scheduled meeting with a Ministry representative to discuss the grants in lieu over Ministry concerns of a missing payment for 2013. Management has accrued a liability in respect of potential amounts outstanding. We are awaiting the outcome of this meeting before audit report finalization.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected "adjustments" or Uncorrected "differences." These include disclosure adjustments and differences.

Professional standards require that we request of management that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

We highlight the following adjustments for your attention:

	Surplus effect	Financial position effect		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
Reclassification of Prepaid property taxes from assets to liabilities	-	15,226	15,226	-
Record actuarial earnings on MFA debt	15,460	-	-	15,460
Write-off of uncollectible receivable balances	(15,672)	(15,672)	-	-
Remove holdbacks from accounts payable that were already released	42,143	-	(42,143)	-
Write-off work-in-progress for projects no longer being pursued	(36,133)	(36,133)	-	-
Adjust amortization expense	15,021	15,021	-	-
Reverse duplicate accrued costs	40,000	-	(40,000)	-
Accrue estimated legal costs	(50,000)	-	50,000	-

	Surplus effect	Financial position effect		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
Correct entries posted to the surplus accounts.	14,923	-	-	14,923

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences and represented to us that the differences—individually and in the aggregate—are, in their judgment, not material to the financial statements.

Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

Uncorrected differences are the result misstatements from the prior year which were corrected in the 2014 year.

A summary of the uncorrected differences is included below:

2013 Uncorrected Differences	Surplus effect	Financial position effect		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
Write-off work-in-progress for projects no longer being pursued	-	(36,133)	-	(36,133)
Remove holdbacks from accounts payable that were already released	25,948	-	(25,948)	-
Write-off of uncollectible receivable balances	-	(15,672)	-	(15,672)
Total	**25,948**	**(51,805)**	**(25,948)**	**(51,805)**

2014 Uncorrected Differences	Surplus effect	Financial position effect		
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Accumulated Surplus (Decrease) Increase**
Unreconciled difference between accounts payable listing and general ledger	10,126	-	(10,126)	-

Implications of adjustments and differences

Although the differences have no effect on our auditors' report, these differences or the underlying matters regarding differences and adjustments (e.g., control deficiencies) could potentially cause future financial statements to be materially misstated or have an implication on the financial reporting process.

The implications of such misstatements on the District's internal control over financial reporting (ICFR) are discussed in the next section of our report "Control Observations."

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.

Control observations

In accordance with professional standards, we are required to communicate to Council any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

Significant deficiencies

Description	Potential effect
The District does not have a formalized tangible capital asset policy or a subledger.	• When acquiring items of a capital nature, treatment is often left to judgment rather than following a formalized process. This presents a risk of capital purchases being recorded incorrectly. There is also a risk that similar assets may be amortized over different periods of time. • Tangible capital assets are currently tracked through a complex spreadsheet that calculates amortization, cost, accumulated amortization, net book value and gains and losses on disposition. Given the significant asset base of the District, the manual spreadsheet has grown to be quite complex and there is a risk for errors to occur within it. KPMG recommends that the District formalize their capital procedures and policies by creating a tangible capital asset policy which provides for a method of recording purchases, criteria for capitalization (versus expenses), amortization rates, classes of assets, disposals and write-downs. To support this formal policy, and simplify the accounting, we recommend the District consider implementation a capital asset software tracking module and develop a new capital chart of accounts within the general ledger.
During the course of the year, we noted that, partially due to employee leave/transition, the Finance department did not have appropriate resources required to close year end or create PSAB compliant financial statements	• KPMG noted significant adjustments required in the financial records and to close year end. • Management has prioritized the need for accurate financial reporting on a go forward basis and has now hired a Manager of Finance who will assist with preparing regular reconciliations and establishing financial reporting procedures for future reporting. • Management has invested time and resources this year to establish appropriate process to maintain accurate financial accounts and that will assist in meeting future reporting deadlines.

Other observations

During the course of our audit, we identified a number of observations that we believe may be of interest to Council.

Our observations may include comments on risks, and the District's approach to those risks, performance improvement observations, or other industry trends and developments.

These observations are based on, among other things, our understanding of the affairs and processes of the District, as well as our understanding of other local governments.

The following is a summary of our observations and insights as discussed with management:

Observation Item	Discussion
Quarterly reporting to Council	We discussed development of a process for quarterly presentation of reports to Council as follows: • Investments & cash balances (i.e. cash management report) • Reserve balances • Comparison of budgeted results compared to actual with explanations on variances
Policy Development	We discussed development of various formal policies including: • Investment policy (guidance on preferred/disallowed investments) • Tangible capital asset policy • Timing and extent of monthly reconciliations • Inventory verification • Small Craft Harbour procedures over revenue completeness • Reserves and Development Cost Charges
Segregation of Duties	Given the limitations of a small District and unfilled positions in recent years, segregation of duties was not always achieved. We recommended that a review of the various key controls be performed so that responsibilities may be appropriately segregated in order to enhance the controls of the District.
IT Security	• The landscape is changing and education to individuals within an organization can be critical to protection from cyber criminals. We recommend management remain diligent to the changing landscape of threats to the District. • Please refer to our appendix on Cyber Security for further information on this matter.
Tax Receivable balances	• The District carries a large tax receivable balance of approximately 40% of the general tax levy in 2014 (2013 – 58%). While this balance has improved from last year, improvements can still be made. • We continue to recommend management consider developing and implementing procedures to encourage earlier collection of property taxes to minimize borrowings and manage cash flow for the benefit of the community.

Appendices

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report which is included in the draft financial statements.
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, a copy of the representation letter is provided to Council in Appendix 2.

Appendix 2: Management Representation Letter

June 18, 2015

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of The District of Ucluelet ("the Entity") as at and for the period ended December 31, 2014.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

General:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 11, 2013, for:
   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of Council that may affect the financial statements, and access to such relevant information
   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

Internal control over financial reporting:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

Fraud and non-compliance with laws and regulations:

3) We have disclosed to you:
   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
   c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Non-SEC Registrants of Non-Reporting Issuers:

7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Misstatements

8) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

9) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Other:

10) We have complied with subsection 2 and 3 of section 124 of Part 8 of the School Act

11) The District's Home Owner Grant Certificate has been prepared and presents fairly the Home Owner Grant information of the District in accordance with the provisions of Section 12 of the Home Owner Grant Act.

Yours very truly,

THE DISTRICT OF UCLUELET

Andrew Yeates, Chief Administrative Officer	Jeanette O'Connor, Chief Financial Officer

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian public sector accounting standards (PSAB) *related party* is defined as:

1) A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').
2) A person or a close member of that person's family is related to a reporting entity if that person:
   a) has control or joint control over the reporting entity;
   b) has significant influence over the reporting entity; or
   c) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions applies:

   a) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   c) Both entities are joint ventures of the same third party.
   d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   e) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   f) The entity is controlled or jointly controlled by a person identified in (a).

District of Ucluelet

Year End: December 31, 2014

Attachment II - Summary of Audit Misstatements

2014 Uncorrected Audit Misstatements:

Number	Date	Name	Account No	Reference	Amount	Amount Chg
19	12/31/2014	MISC OFFICE EXP	1020711490	BB015	-10,125.56	-10,125.56
19	12/31/2014	ACCOUNTS PAYABLE	1040670000	BB015	10,125.56	
		to reduce AP balance to listing				
		total based on unreconciled amounts				

2013 Uncorrected Audit Misstatements:

Number	Date	Name	Account No	Reference	Amount	Amount Chg
6	12/31/2013	MISC - PW	1023471490	Q8	36,133.22	
6	12/31/2013	WIP - PEN RD PHASE 2	2030200002	Q8	-36,133.22	(36,133.22)
		to expense WIP project				
		- project abandoned in 2008 and costs related to design of ditches and sidewalks on				
		Peninsula rd,. no intention to complete				
8	12/31/2013	MISC - PW	1023471490	Q015	-25,947.86	(25,947.86)
8	12/31/2013	HOLDBACK	1040710000	Q015	25,947.86	
		to adjust holdbacks to Brunnell				
		construction amount, known 2013 holdbacks balance.				
15	12/31/2013	BAD DEBTS/NSF	1020991130	J10	15,671.68	15,671.68
15	12/31/2013	OTHER RECEIVABLE	1030750000	J10	-15,671.68	
		entry to write off unidentified and uncollectible AR balances (prior to 2010)				
						(46,409.40)

Attachment II - Summary of Audit Misstatements (Continued)

2014: Corrected Audit Misstatements:

Number	Date	Name	Account No	Reference	Amount	Accumulated Surplus	Amount Chg
		Accumulated Surplus Before Adjustments				729,672.92	
1	12/31/2014	CURRENT TAXES	1030430000	J020	16,566.82		
1	12/31/2014	PREPAID TAXES	1030431000	J020	(15,226.19)		
1	12/31/2014	PREPAID TAXES	1030431000	J020	15,226.19		
1	12/31/2014	ARREARS TAXES	1030470000	J020	(1,340.63)		
1	12/31/2014	UNEARNED REVENUES	1040650000	J020	(15,226.19)		
		to reclassify prepaid property taxes - per supporting listing to be presented as a liability.					
					0.00	729,672.92	0.00
2	12/31/2014	MFA ACTUARIAL INTEREST EARNED	1013064000	H110	(15,459.92)		
2	12/31/2014	SHORT TERM INTEREST EARNED	1013070000	H110	(772.00)		
2	12/31/2014	FIRE TRUCK INTEREST B/L 829	1029318360	H110	12,310.00		
2	12/31/2014	UCC/HUB INTEREST B/L 1074	1029318370	H110	(12,310.00)		
2	12/31/2014	MFA ACTUARIAL INTEREST	1029320000	H110	15,459.92		
2	12/31/2014	MFA DRF CASH B/L 1074 UCC/HUB	1037311074	H110	617.00		
2	12/31/2014	MFA DRF CASH B/L 829	1037311829	H110	155.00		
2	12/31/2014	CASH REQUIREMENT B/L 829	1044610829	H110	(88.51)		
2	12/31/2014	CASH REQUIREMENT B/L 1074	1044611074	H110	(438.85)		
2	12/31/2014	MFA DEBT B/L 829	2040120100	H110	88.51		
2	12/31/2014	MFA DEBT B/L 1074	2040120300	H110	438.85		
		Debt entries to agree balances to MFA debt position report: LTD balance, recognize actuarial interest earned, recognize interest expense, reclass interest recognized between loans, adjust restricted cash balance for actuarial earnings.					
					0.00	745,904.84	16,231.92

Attachment II - Summary of Audit Misstatements (Continued)

2014: Corrected Audit Misstatements (continued):

Number	Date	Name	Account No	Reference	Amount	Accumulated Surplus	Amount Chg
3	12/31/2014	FIRE TRUCK - 2001 NEW TRUCK	1029318335	H110	155.00		
3	12/31/2014	UCC/HUB B/L 1074	1029318365	H110	617.00		
3	12/31/2014	SURPLUS/DEFICIT	5040200000	H110	(772.00)		
		to record reserves entry for					
		current year income on debt reserve cash					
					0.00	745,904.84	0.00
9	12/31/2014	BAD DEBTS/NSF	1020991130	J10	15,671.68		
9	12/31/2014	OTHER RECEIVABLE	1030750000	J10	(15,671.68)		
		entry to write off unidentified and uncollectible AR balances (prior to 2010)					
					0.00	730,233.16	(15,671.68)
10	12/31/2014	MISC - PW	1023471490	Q030	(25,947.86)		
10	12/31/2014	HOLDBACK	1040710000	Q030	25,947.86		
		to record holdback adjustment					
		related to 2013 balance - posted to F14					
					0.00	756,181.02	25,947.86
11	12/31/2014	MISC - PW	1023471490	Q015	(16,194.47)		
11	12/31/2014	HOLDBACK	1040710000	Q015	16,194.47		
		to write off remaining holdback					
		balance in 2014					
					0.00	772,375.49	16,194.47
12	12/31/2014	MISC - PW	1023471490	Q8	36,133.22		
12	12/31/2014	ROADS	2030470000	Q8	(36,133.22)		
		to expense WIP project					
		- project abandoned in 2008 and costs related to design of ditches and sidewalks on					
		Peninsula rd,. no intention to complete					
					0.00	736,242.27	(36,133.22)

Attachment II - Summary of Audit Misstatements (Continued)

2014: Corrected Audit Misstatements (continued):

Number	Date	Name	Account No	Reference	Amount	Accumulated Surplus	Amount Chg
13	12/31/2014	DEP'N EXPENSE - BLDGS	1029030100	Q10	(2,678.00)		
13	12/31/2014	DEP'N EXPENSE - EQUIP	1029030200	Q10	(10,014.00)		
13	12/31/2014	DEP'N EXPENSE - ROADS	1029030300	Q10	(2,329.00)		
13	12/31/2014	ACCUM DEP'N - BLDGS	2030150001	Q10	2,678.00		
13	12/31/2014	ACCUM DEP'N - EQUIP	2030190001	Q10	10,014.00		
13	12/31/2014	ACCUM DEP'N - ROADS	2030470001	Q10	2,329.00		
		to adjust amortization to calculated balances from TCA working paper, after audit adjustments.					
					0.00	751,263.27	15,021.00
20	12/31/2014	Working Reserves	1013590000	G19	(50,000.00)		
20	12/31/2014	AUDIT EXPENSE	1020951120	G19	(40,000.00)		
20	12/31/2014	MISCELLANEOUS - BOAT LAUNCHES ETC.	1024979999	G19	50,000.00		
20	12/31/2014	OTHER ACCOUNTS PAYABLE	1040750000	G19	40,000.00		
20	12/31/2014	OTHER ACCOUNTS PAYABLE	1040750000	G19	(50,000.00)		
20	12/31/2014	SMALL CRAFT HARBOURS	1046100270	G19	50,000.00		
		To adjust accrued professional fees to actual and set up contingent liability accrual					
					0.00	741,263.27	(10,000.00)
FS 1	12/31/2014	GENERAL GOVT SERVICES-BUILDINGS	2030150000	Q10	11,656.00		
FS 1	12/31/2014	ROADS	2030470000	Q10	(11,656.00)		
		to reclass TCA buildings to roads			0.00	741,263.27	0.00
FS 3	12/31/2014	WIP - PEN RD PHASE 2	2030200002	Q8	(98,257.00)		
FS 3	12/31/2014	WIP - BOAT LAUNCH	2030210003	Q8	98,257.00		
		entry to reclass boat launch WIP additions in 2013 to boat launch (inaccurately added to pen rd ph2) (KPMG only - client records are accurate)			0.00	741,263.27	0.00

Attachment II - Summary of Audit Misstatements (Continued)

2014: Corrected Audit Misstatements (continued):

Number	Date	Name	Account No	Reference	Amount	Accumulated Surplus	Amount Chg
FS 4	12/31/2014	Amortization - protective services	KPMG1	Q10	53,533.00		
FS 4	12/31/2014	Amortization - GG	KPMG2	Q10	23,808.00		
FS 4	12/31/2014	DEP'N EXPENSE - EQUIP	1029030200	Q10	(67,561.00)		
FS 4	12/31/2014	DEP'N EXPENSE - OTHER	1029030500	Q10	(9,780.00)		
		to reclassify amortization per segmented expenses for presentation purposes (KPMG only)					
					0.00	741,263.27	0.00
FS 5	12/31/2014	MISC OFFICE EXP	1020711490		(14,923.00)		
FS 5	12/31/2014	SURPLUS/DEFICIT	1041670000		14,923.00		
		To adjust for entries previously made directly to the surplus accounts.					
					0.00	756,186.27	14,923.00
					0.00	**756,186.27**	**26,513.35**

Corrected misstatements in presentation and disclosure

Minor changes to presentation and disclosure were recommended and accepted

Appendix 3: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx for more information.

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm’s standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 4: Background and professional standards

Internal control over financial reporting

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 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 above 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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Appendix 5: Current developments

Cyber Security, Is your organization at risk?

Cyber-attacks are an inevitable part of life today, and the financial and reputational costs of not being prepared against such attacks are significant. Cyber-attacks are being launched against all forms of valuable information including both financial and non-financial data sources. Estimates suggest the global financial impact of cybercrime is US$114 billion; companies are thought to bear almost 80% of those costs. The nature of these attacks and the perpetrators behind them are always changing. Hacktivists, organized criminals, competitors, and even rogue governments are mounting attacks with a high level of sophistication and persistence. These perpetrators have different motives, however are common in that they are looking to either disrupt or better themselves by stealing another entities data.

Patching servers and installing intrusion detection systems is no longer enough to protect your critical assets and business processes. Cyber Security has never been solely about IT; it has always been a business issue first. To survive and prosper requires a business-wide understanding of the threats, safeguards, and responses involved. Key elements to consider include:

- Preparing your people, processes, infrastructure and technology to resist an attack
- Detecting the attack and initiating your response
- Containing and investigating the attack
- Recovering from an attack and resuming business operations
- Reporting on and improving security

Organizations should begin to review their organization and consider Cyber Risks. Key data that may be identified includes resident, banking, payroll data etc.

Developments in Canadian Public Sector Accounting Standards:

Standard on Contaminated Sites

Highlights

A new standard has been issued establishing standards on accounting for and reporting the liability related to contaminated sites.

This standard requires a government to record a liability when the standard exists, the contamination in question exceeds an authoritative environmental standard and the government is directly responsible or accepts responsibility. Voluntary compliance with a non-authoritative policy or guideline may create a liability.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2014 however earlier adoption is permitted. For municipalities, implementation will be in the year ended December 31, 2015.

Implications

Municipalities will have to review any contaminated sites and determine if a liability meets the standards such that it must be reported.

New Standard on Financial Instruments

Highlights

A new standard has been issued establishing standard on accounting for and reporting all types of financial instruments including derivatives.

The standard requires that all financial instruments that are equity instruments and trade in an active market or derivatives be recorded at fair value. The standard requires that all other financial instruments are recorded at cost but permits the option of fair value for any financial instruments that are managed and reported at fair value. This standard also includes a requirement to identify and report embedded derivatives separate from the host contract with an option to value the full contract which includes the embedded derivatives at fair value.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2016. Earlier adoption is permitted. An entity early adopting this standard must also early adopt the revised Foreign Currency Translation standard.

Implications

This standard requires municipalities to record any equity investments that trade in an active market at fair market value. Municipalities can also elect to record any investments that are managed and evaluated on a fair value basis at fair value. Changes in fair value of all assets that are recorded at fair market value will be reported in a new financial statement; the statement of remeasurement gains and losses.

This standard will also require municipalities to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value.

This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the municipality. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type (credit, liquidity and market).

Revised Standard on Foreign Currency Translation

Highlights

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2016. Earlier adoption is permitted. An entity early adopting this standard must also adopt the new Financial Instruments standard.

Implications

Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.

Related Party Transactions and Inter-entity Transactions

- Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.
- Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.
- Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.
- Determining which related party transactions to disclose is a matter of judgment based on assessment of:
  - the terms and conditions underlying the transactions;
  - the financial significance of the transactions;
  - the relevance of the information; and
  - the need for the information to enable users' understanding of the financial statements and for making comparisons.
- A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.
- Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.

Assets, Contingent Assets and Contractual Rights

- Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017.
- The intended outcome of the three new Handbook Sections is improved consistency and comparability.
- The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity.
- Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.

Restructurings

- A new Handbook section was approved in March 2015, effective for fiscal years beginning on or after April 1, 2018.
- A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred.
- The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense.
- Restructuring-related costs are recognized as expenses when incurred.
- Financial information prior to the restructuring date would not be restated.

Revenue

- PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and comments are currently under deliberation.
- A request for information is under development and expected for release in 2015. Adoption of these principles would result in a need to assess current accounting policies.
- In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.
- For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

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