

DRAFT Financial Statements of

**MUNICIPALITY OF
KINCARDINE BUSINESS
IMPROVEMENT AREA**

Year ended December 31, 2018

DRAFT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Municipality of Kincardine Business Improvement Area

Qualified Opinion

We have audited the financial statements of Municipality of Kincardine Business Improvement Area (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and changes in accumulated surplus for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the "**Basis for Qualified Opinion**" section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with public sector accounting standards.

Basis for Qualified Opinion

The Entity issues gift certificates to be used as promotional items, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of the associated fundraising revenues, deferred revenues, gift card liabilities and advertising expenses were limited to the amounts recorded in the records of the Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the financial assets reported in the statements of financial position as at December 31, 2018 and December 31, 2017.
- the fundraising revenues, advertising expenses, excess of revenues over expenses and accumulated surplus, at the beginning and end of the year, reported in the statements of operations and changes in accumulated surplus for the years ended December 31, 2018 and December 31, 2017.
- the annual surplus (deficit) reported in the statements of cash flows for the years ended December 31, 2018 and December 31, 2017.

Our opinion on the financial statements for the year ended December 31, 2017 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

MUNICIPALITY OF KINCARDINE BUSINESS IMPROVEMENT AREA

Statement of Financial Position

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December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash	\$ 2,509	\$ 25,109
Trade receivable	19,914	1,388
Inventories (note 2)	2,490	4,201
Prepaid expenses	220	220
	<u>25,133</u>	<u>30,918</u>
Financial Liabilities		
Accounts payable and accrued liabilities (note 3)	20,858	11,949
Net financial assets being the accumulated surplus	\$ 4,275	\$ 18,969

See accompanying notes to financial statements.

MUNICIPALITY OF KINCARDINE BUSINESS IMPROVEMENT AREA

Statement of Operations and Changes in Accumulated Surplus

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Year ended December 31, 2018, with comparative information for 2017

	2018 Budget	2018 Actual	2017 Actual
Revenue:			
Municipality of Kincardine grant	\$ 70,200	\$ 69,509	\$ 70,448
Fundraising revenue	-	1,027	1,314
Interest income	-	465	255
Other grants	-	-	283
	70,200	71,001	72,300
Expenses:			
Community improvements/beautification	23,500	42,383	23,095
Advertising	25,550	26,469	19,069
Administration	18,750	11,837	12,457
Professional fees	4,100	4,070	4,070
Sustainability	-	661	329
Rent	300	275	640
	72,200	85,695	59,660
Annual surplus (deficit)	(2,000)	(14,694)	12,640
Accumulated surplus, beginning of year	-	18,969	6,329
Accumulated surplus, end of year	\$ (2,000)	\$ 4,275	\$ 18,969

See accompanying notes to financial statements.

MUNICIPALITY OF KINCARDINE BUSINESS IMPROVEMENT AREA

Statement of Cash Flows

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Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Annual surplus (deficit)	\$ (14,694)	\$ 12,640
Changes in non-cash operating working capital:		
Trade receivable	(18,526)	1,992
Inventories	1,711	330
Prepaid expenses	-	15
Accounts payable and accrued liabilities	8,909	(7,682)
Deferred revenue	-	(283)
(Decrease) increase in cash	(22,600)	7,012
Cash, beginning of year	25,109	18,097
Cash, end of year	\$ 2,509	\$ 25,109

See accompanying notes to financial statements.

MUNICIPALITY OF KINCARDINE BUSINESS IMPROVEMENT AREA

Notes to Financial Statements

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Year ended December 31, 2018

1. Summary of significant accounting policies:

These financial statements are the representation of management prepared in accordance with Canadian generally accepted policies for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

(a) Basis of accounting:

The Board follows the accrual method of accounting for revenue 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.

(b) Deferred revenue:

Deferred revenue represents grants which have been collected, but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(c) Inventories:

Inventories are measured at the lower of cost and net realizable value. Cost includes purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. The costs are assigned using the first-in, first-out cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(d) 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 provisions for accrued liabilities and the provision for inventory obsolescence. Actual results could differ from these estimates.

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Notes to Financial Statements (continued)

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Year ended December 31, 2018

2. Inventories:

	2018	2017
Inventory at cost	\$ 3,540	\$ 4,201
Provision for obsolescence	(1,050)	-
	\$ 2,490	\$ 4,201

The amount of inventory included in advertising was \$1,711 in the current year (2017 – \$330). During the year ended December 31, 2018 an amount of \$1,050 was recorded as a write down from cost to net realizable value.

3. Accounts payable and accrued liabilities:

Also included in accounts payable and accrued liabilities are amounts due to the Municipality of Kincardine in the amount of \$10,172 (2017 - \$721).