

2011 Annual Report & Financial Statements for the **BLACK MOUNTAIN IRRIGATION DISTRICT**



For the Year Ended December 31, 2011

TRUSTEES

Until 2012 Election	Ivans: G.
Until 2012 Election	Kempf: A.
Until 2013 Election	Horning: A.
Until 2013 Election	Zimmermann: G.
Until 2014 Election	Kirschner: A.

DISTRICT OFFICERS

Administrator	R. Hrasko, P. Eng.
Operations Superintendent	Kevin Burtch



Auditors: Grant Thornton LLP

THE ANNUAL GENERAL MEETING

Will be held in the BMID Boardroom

285 Gray Road, Kelowna, BC

Wednesday, April 11, 2012 Time: 7:00 pm



Black Mountain Irrigation District

The Annual General Meeting will be held on **Wednesday, April 11th, 2012 at 7:00 pm** in the BMID boardroom located at 285 Gray Road. The terms of office for Trustees, Gordon Ivans and Alfred Kempf expire in April, 2012 and they will be seeking re-election. Other nominations for Trustees will be received **until 4:00 pm on March 30, 2012**. If an election is required, voting will take place on **Friday, April 13th, 2012 from 8:00 am to 6:00 pm**. If a vote is required, an early poll will also be held Thursday, April 5th from 12:00 pm to 6:00 pm.

**If you require more information on any of the above,
please call the BMID office at (250) 765-5169.**



2011 Trustees Report to the Water Users

- MEETINGS:** The Board of Trustees held a total of 28 regular meetings throughout 2011 to conduct business activities of the District. In addition, the Trustees also attended several Kelowna Joint Water Committee functions, the Water Supply Association of BC spring workshop and AGM, and meetings related to the Kelowna Integrated Water Supply Plan, plus other water supply related functions during the year.
- ELECTIONS:** There was no election of Trustees in 2011 as Allan Kirschner was reappointed by acclamation.
- STAFFING:** There were minimal staff changes in 2011. Michelle Towle was hired part time as front desk Administrative Assistant in early 2011. Staff training has continued with the training and education requirements for staff being met for their varying levels of certification.
- The Management team for BMID for 2011 remains intact for 2012. It includes:
- | | |
|----------------|---------------------------|
| Bob Hrasko | Administrator |
| Kevin Burtch | Operations Superintendent |
| Trena Phillips | Office Manager |
- SAFETY:** There were no major injuries or incidents related to work safety or injury in 2011.
- MISSION CREEK:** BMID relied on Mission Creek and groundwater wells for the water supply to the domestic customers. Mission Creek provided nearly 95% of all water used by BMID in 2011. Mission Creek flows were very high for 2011 due to a very high snow pack that accumulated in late April and May, 2011. BMID did not have to access storage until the last few days in July, 2011.
- WATERSHED:** Water reservoir levels at the end of 2011 were 54 percent of capacity, or 6,836 acre-feet of the 12,567 acre-feet available. Details are summarized in the 2011 Operations Report. The level of moisture in the watershed was higher than normal and the reservoirs were drawn down slightly more than the previous year.
- The Three-Forks gravel pit located at the confluence of Mission Creek mainstem and Pearson Creek in the upper watershed was inactive.
- Cattle management activity with Provincial Forestry and Range staff was active, however no major fencing or watering stations were installed in 2011. Grant monies were awarded to BMID by the OBWB for cattle fencing, but work was not completed in the current year.
- WATER SAFETY:** A Water Quality Advisory was called on May 10 2011 and lifted on June 21, 2011 as a result of turbidity in the distribution system being above 1.0 NTU. BMID completed works on replacing the 20 year old chlorinators for the main system at Hadden Reservoir and the back-up system at the Surge Tower.



New equipment was purchased and the materials and installation were completed in April 2011.

KJWC

The KJWC was busy working on the Kelowna Integrated Water Supply Plan. The report is the most comprehensive report on the state of water quality and planning for long term water quality improvements for Kelowna. BMID contributed significantly to the report in terms of staff time and payment of monies for report writing and drafting services. The report is in draft form and awaiting comments from the Provincial Ministry of Community Development.

In regards to water quality grant monies, the BMID UV project is high on the list of water quality projects in Kelowna that require funding assistance.

WSABC:

The WSABC carried out normal businesses and held their AGM in Salmon Arm on October 27 - 28, 2011.

GROWTH:

Growth in BMID was still low with only a slight increase in CEC revenue compared to the last two years.

<i>Grade of Land/Connections</i>	<i>Year End 2006</i>	<i>Year End 2007</i>	<i>Year End 2008</i>	<i>Year End 2009</i>	<i>Year End 2010</i>	<i>Year End 2011</i>
Grade A Lands (assessment)	4107	4088	4323	4300	4310	4292
Grade C Lands (assessment)	1218	1207	1202	1271	1255	1279
Grade D Lands (dry lands)	2024	2061	2668	2582	2582	2565
Single Family Lots	4883	4950 (est)	4993	5006	5143	5186
Total Connections	7699	7985	8120	8202	8298	8358
Total CECs Collected	\$571,744	\$1,115,836	\$376,425	\$97,002	\$62,616	\$121,652

PROJECTS

Projects undertaken in 2011 by BMID staff included:

- BMID's primary supply conduit from Mission Creek experienced a large crack and was shut-down for repair. A 30 meter section of 1500mm diameter steel main was used to repair the conduit. From March 1 to March 28, BMID's system was fed from a number of cross-ties with Rutland Waterworks District;
- 10 truckloads of horse manure were removed from a property along Mission Creek by BMID staff in early March at a cost of \$4,500. This minimized the risk of contamination to Mission Creek;
- Fire hydrant repainting took place during the summer. A number of hydrants were repainted yellow with different cap colors to coincide with more accurate available fire flows;
- Water supply to Treetop Road-Swainson Road area now fed from Booster 4, after flow at Booster 2 was reversed and converted into PRV station. A new PRV on Treetop Road was added to ensure proper flow and pressure to Swainson Road area;
- A large diameter pressure reducing valve was added to PRV 16 on upper McCurdy Rd bringing this PRV station fully on-line;



-
- Chlorination equipment renewal and maintenance on the Travelling Screens below Hadden Pond was finished in early 2011;
 - Construction of a new heated Cover-All Building over the mixing tanks at the Water Treatment Plant began at the end of 2011;
 - Five new peristaltic pumps were installed at the Water Treatment Plant to aid in more reliable chemical dosing.
 - Black Mountain Reservoir and UV disinfection project is progressing with detailed designs and approvals being undertaken for works;
 - An agreement was made with the City Parks staff to install pipeline through the City Park located at Gallaghers Road and Joe Rich Rd. The project benefits both BMID and the City;
 - 452 meters of 1050mm Steel watermain is being installed South of Highway 33;
 - BMID also exchanged reservoir storage volume with the Ministry of Environment. BMID received two new dams and storage at Loch Long Reservoir in exchange for equivalent storage at Belgo Reservoir;
 - A significant pipe line contract was awarded to Bennett Contracting in August, 2011 for the installation of 300 metres of 1050mm diameter steel water main south of Highway 33. The pipeline work was completed in late fall with grading, clean-up and planting work to be done in the spring of 2012.
 - BMID was able to refinance the 10 year old Water Treatment plant loan with the Province. The effective financing rate for the first 10 years was 8% due to the sinking fund investments administered by the Province. BMID was able to secure a repayment of 3.54% for the last 10 years of debt repayment resulting in substantial savings in the \$2,200,000 owing on the Water Treatment Plant.



ADMINISTRATION: Taxes and tolls increased in 2011 a nominal amount by approximately 2.0% to match inflation. Rates were set to match the rate of inflation.

ACKNOWLEDGEMENTS:

On behalf of the BMID water users, the Trustees and the Administrator thank all of the District staff for their continued co-operation, dedication and hard work in 2011.

Respectfully submitted,

Board of Trustees Chairman - Gord Ivans
Alfred Kempf
Allan Kirschner
Al Horning
Gerry Zimmermann

Administrator Robert Hrasko





2011 Operations and Maintenance Report

MAINTENANCE: To keep the water system operating smoothly, the annual maintenance schedule was followed in 2011. It includes maintenance and upgrades to our PRV stations, booster stations, domestic and irrigation services, and water mains. In 2011, a thorough servicing was completed on the major components of the system. Extensive maintenance is done every year on all major components to maintain operating efficiencies and extend the lifespan of important District infrastructure.

REPAIRS: Small leaks were repaired on a number of the domestic and irrigation services. One major repair was completed on the BMID main conduit early in February 2011. This required BMID to use 40 meters of 60-inch pipe to make the repair. This repair took about three weeks to complete. We had to use Rutland Water Works water to keep the District fully supplied with water during repairs. There were many other resources used to aid in this repair. At this time BMID resurfaced the road along the conduit main to allow for better access.

OTHER WORK: Seven (7) new domestic services were installed in addition to the contracted subdivisions. No new blow offs were installed during 2011. There are approximately 35 blow offs yet to be installed on the distribution system. BMID will continue to install blow offs on an ongoing basis. BMID has done more updating to the SCADA (Supervisory Control and Data Acquisition) system to increase efficiency in dealing with station problems. Extensive flushing was done throughout the year. A valve exercising program was completed. Hydrant maintenance was carried out twice during the year. Upstream maintenance this year consisted of brushing and clearing of all dams. Crew replaced two roofs at screen works and chlorinator buildings. BMID worked with Bennett Contracting on installing 42-inch pipeline on Old Joe Rich Rd. Along with this pipe line project we set up a grooving machine to join the pipe for a mechanical seal. BMID set up a Guard-all building at the water treatment plant to cover existing infrastructure as protection from extreme weather conditions.

TOTAL METERS & CONNECTIONS:

	2010	2011
Total Domestic connections	5,259	5277
Total Domestic meters installed to date	830	855
Total Irrigation meters	396	409
<u>Total Commercial metered accts</u>	<u>313</u>	<u>317</u>
TOTAL METERED ACCOUNTS	1,539	1581
Total accounts	6,046	6078

(Note: there are 392 total active commercial accts with 75 accounts on flat rate).

EQUIPMENT: Most of the equipment required minor repairs due to normal wear. All equipment was regularly maintained throughout 2011, with some major servicing required. BMID purchased two new pieces of equipment. One EX135 excavator and a 2006 Peterbuilt deck truck.



STAFF: Training of staff has been ongoing to meet the Provincial training requirement of 2.5 days for every two years, per operator. BMID staff provided a high level of day-to-day performance and worked diligently throughout 2011. Management is very pleased and supportive of the staff's efforts.

CONSUMPTION: Total annual consumption was 11,943 ML (3,155,383,850 US Gallons, 9,684 ac-ft). Please refer to consumption graph attached. The average daily flow for 2011 was 32.72 ML/day (8,644,877 US gallons/day). The maximum daily flow was on August 8th at 201 ML (53,170,000 US gallons). The minimum day was 3.92 ML/day on December 21, 2011 (1,035,800 US gallons/day).

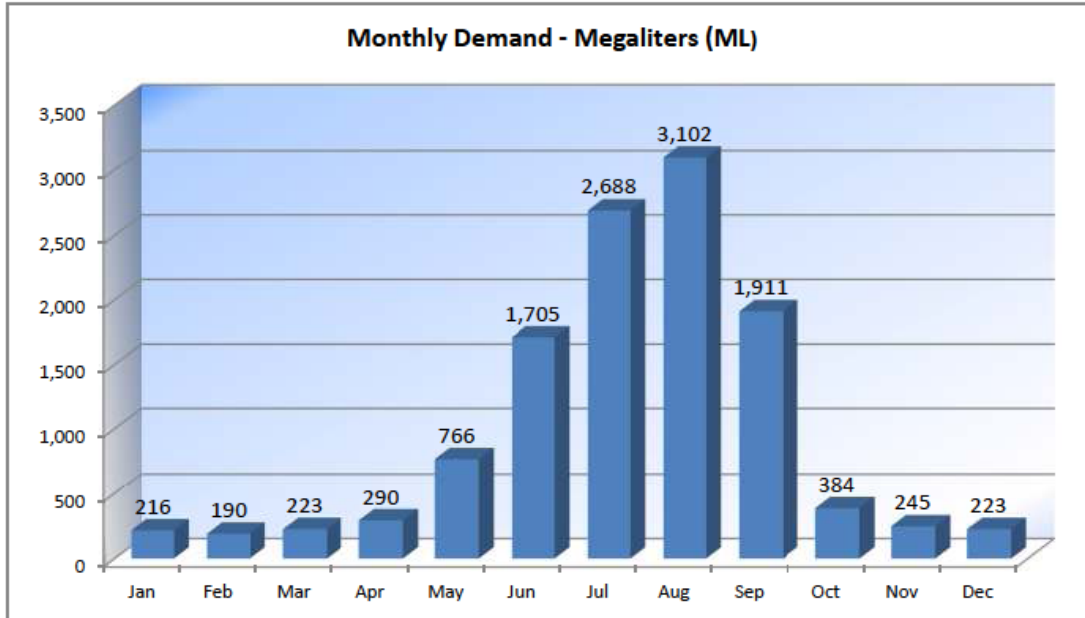
WATERSHED: When the Water Treatment Plant was not running, water was drawn from our higher elevation reservoirs (Graystoke and Fishhawk) to keep water quality as high as possible through the summer months. BMID did not have to utilize water from storage reservoirs until mid July. The reservoir levels at 2011 year-end are summarized below. At year end 52% of storage remained in place with levels significantly above average.

Reservoir	Volume (full in ac-ft)	Volume (Yr End - ac-ft)	% Remaining
Belgo Reservoir	5,537	3,741	67%
Graystoke Reservoir	4,133	1,338	32%
Fishhawk Reservoir	1,712	950	55%
James Lake Reservoir	1,321	802	60%
TOTAL	12,567 ac-ft	6836 ac-ft	52%
Loch Long (Province Reservoir)	507	0	0%

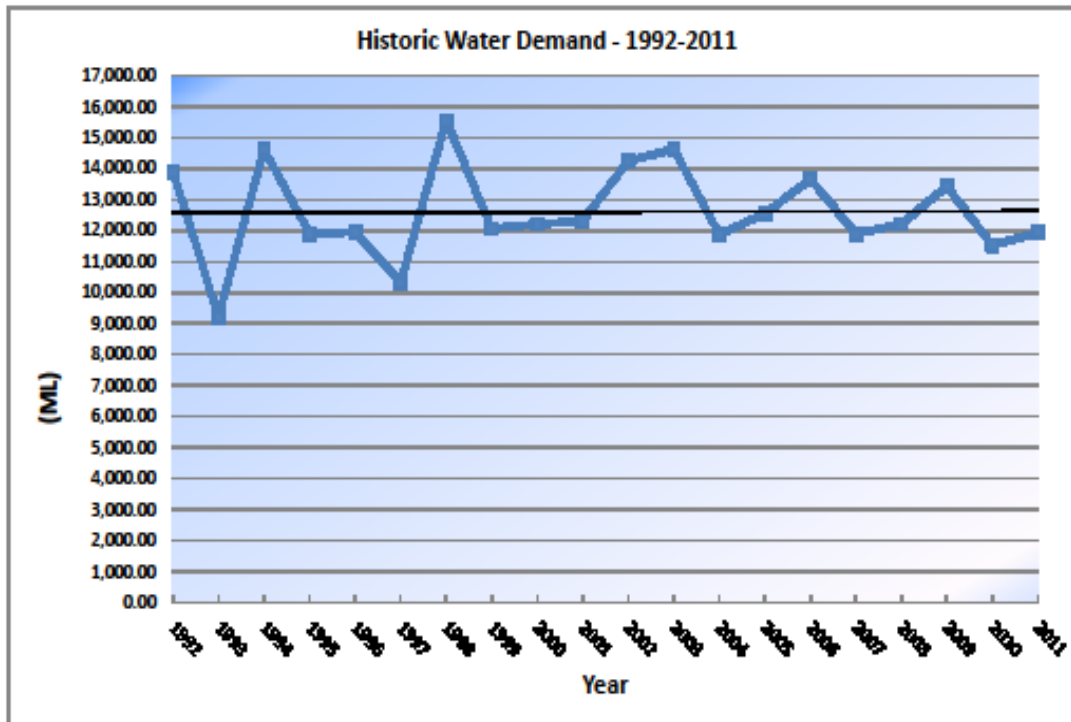
Respectively submitted,
Kevin Burtch
Operations Superintendent



Total Annual Demand for 2010 for all sources was 11,522 ML.

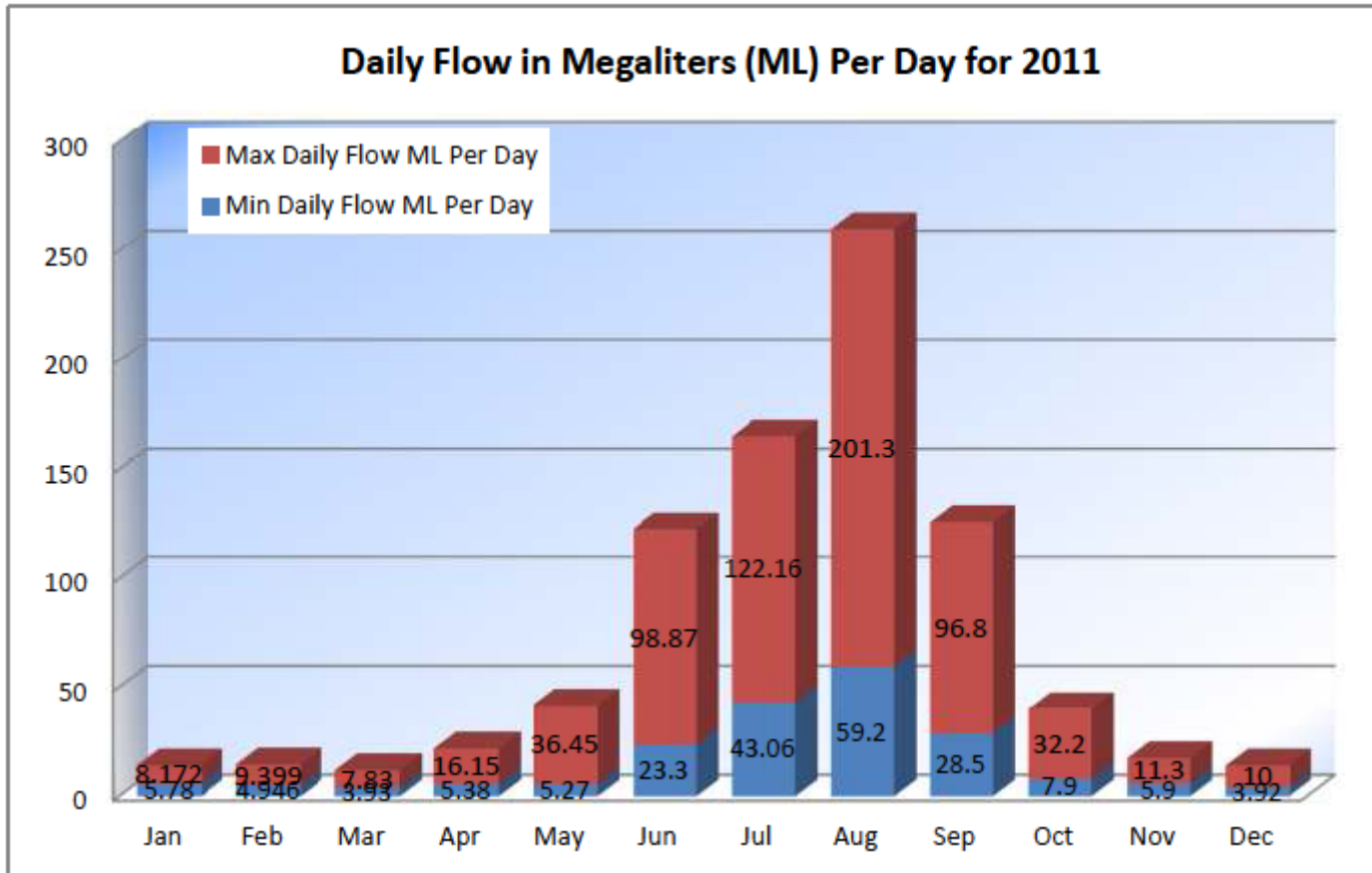


Historic District Water Demand – (1976 – 2010)



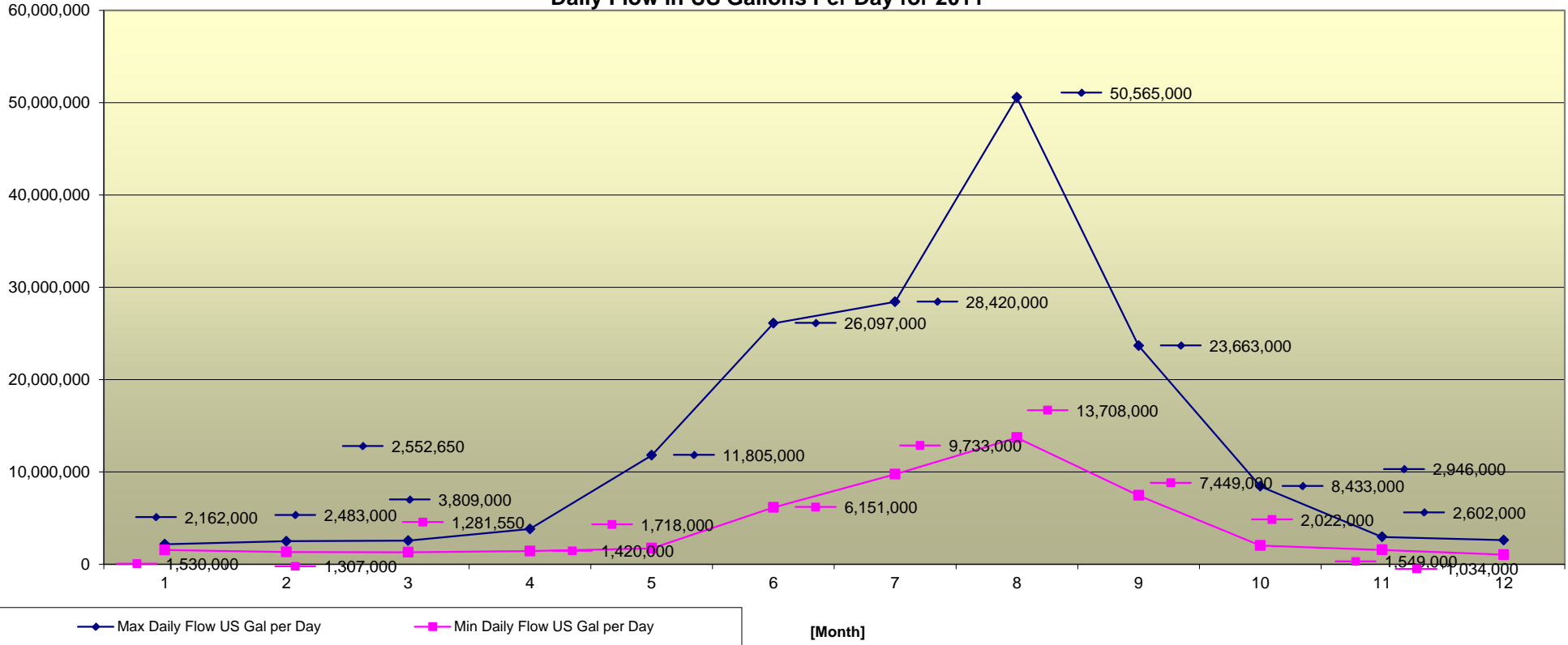


Maximum and Minimum Daily Flows per Month



Black Mountain Irrigation District

Daily Flow in US Gallons Per Day for 2011



Maximum and Minimum Flow Comparisons								
2011	Max Daily Flow	Max Daily Flow	Min Daily Flow	Min Daily Flow	Peak Flow	Peak Flow	Min Flow	Min Flow
Month	Date	US Gal per Day	Date	US Gal per Day	Date	US Gal per Minute	Date	US Gal per Minute
January	1-Jan-11	2,162,000	17-Jan-11	1,530,000	5-Jan-11	2,500	3-Jan-11	1,900
February	6-Feb-11	2,483,000	23-Feb-11	1,307,000	5-Feb-11	2,900	26-Feb-11	1,600
March	17-Mar-11	2,552,650	18-Mar-11	1,281,550	23-Mar-11	3,600	7-Mar-11	2,000
April	28-Apr-11	3,809,000	9-Apr-11	1,420,000	28-Apr-11	3,998	9-Apr-11	2,000
May	30-May-11	11,805,000	6-May-11	1,718,000	11-May-11	12,000	2-May-11	3,000
June	10-Jun-11	26,097,000	1-Jun-11	6,151,000	27-Jun-11	21,250	2-Jun-11	4,670
July	7-Jul-11	28,420,000	20-Jul-11	9,733,000	12-Jul-11	26,500	22-Jul-11	11,500
August	2-Aug-11	50,565,000	11-Aug-11	13,708,000	28-Aug-11	27,000	31-Aug-11	1,650
September	6-Sep-11	23,663,000	30-Sep-11	7,449,000	30-Sep-11	71,000	29-Sep-11	6,000
October	1-Oct-11	8,433,000	21-Oct-11	2,022,000	11-Oct-11	25,000	25-Oct-11	225
November	15-Nov-11	2,946,000	10-Nov-11	1,549,000	8-Nov-11	3,300	3-Nov-11	2,200
December	20-Dec-11	2,602,000	21-Dec-11	1,034,000	7-Dec-11	7,000	10-Dec-11	950



2011 Water Treatment Plant Report

WTP OPERATIONS

The Black Mountain Irrigation District's Class IV Water Treatment Plant performed well during the freshet of 2011. Good results were achieved in the reduction of colour, turbidity, total organic carbon levels and particle counts. During the past year, the treatment process improved drinking water quality and good results were obtained.

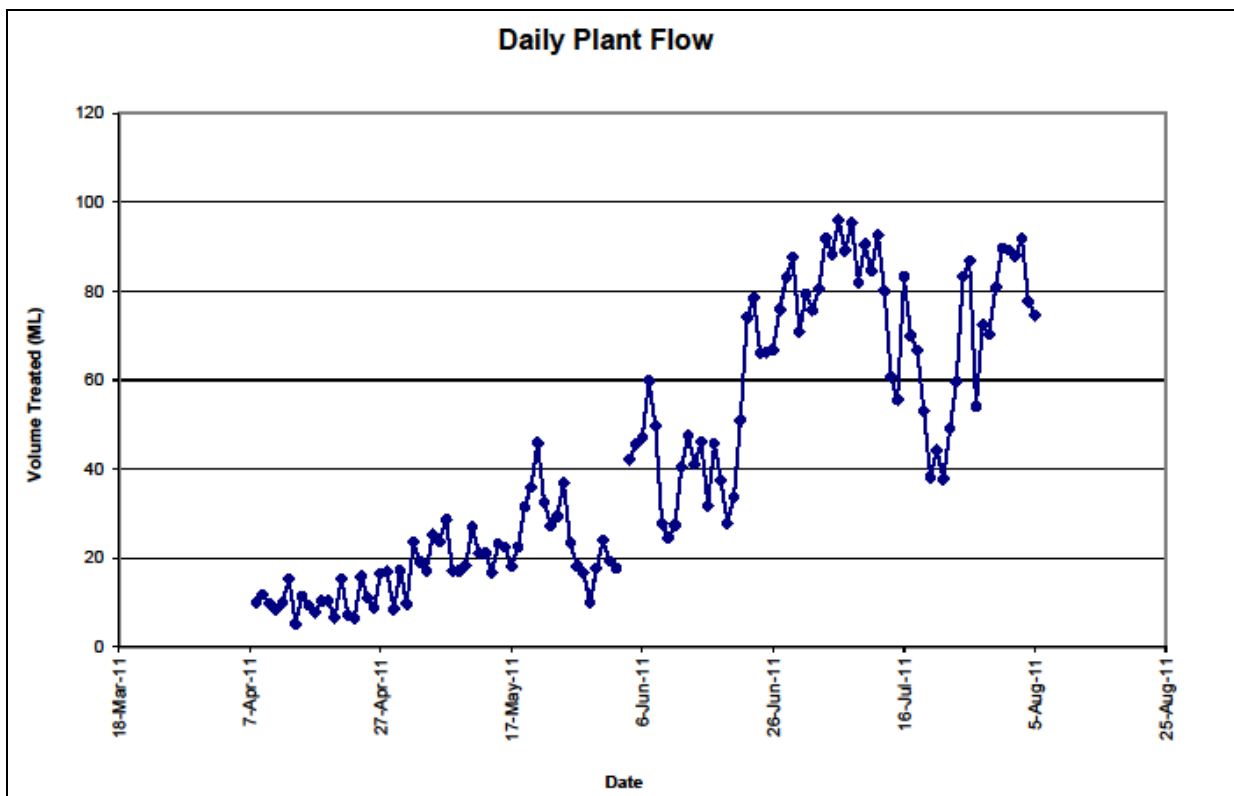
Turbidity spikes in Mission Creek occurrences were as common as in previous years, although Spring Freshet experienced higher than normal flows. There were only a couple of occasions where the plant was operated with creek turbidity at very high levels. Raw water turbidity as high as 68.8 NTU was recorded at the BMID Grit Pond prior to entering the treatment process. The plant was able to keep up with the water quality conditions in the creek and treated water turbidities being maintained below 1.0 NTU for most of the treatment season.

At the beginning of the treatment season, difficulties in chemical dosing were experienced resulting in higher than normal turbidity levels. Problems were encountered with the chemical dosing pumps. These were either replaced or recalibrated. Once this was done, the treatment process stabilized and was more effective in meeting water quality standards. The highest turbidity noted at the point of disinfection was 2.07 which occurred on May 21, 2011.



PLANT FLOW

The treatment plant was operating for 121 days from April 7, 2011 to August 5, 2011 at which time the water quality in the creek was of sufficiently low turbidity such that the chemical expenditures did not warrant further treatment. When possible, the plant was operated between 300 and 400 L/s per flocculation train as this is typically the flow range where the best quality treated water is produced. During the last four years, the average volume of water treated through the spring freshet season was 5,300 ML. In 2011, 5,111 ML of water was treated by the BMID Water Treatment Plant. The average daily flow treated was 43 ML/day. July 6, 2011 had the highest daily treated flow at 96 ML/Day. The WTP plant capacity is 105 ML/day.



Daily plant flow ML for 2011 combined total for both trains.

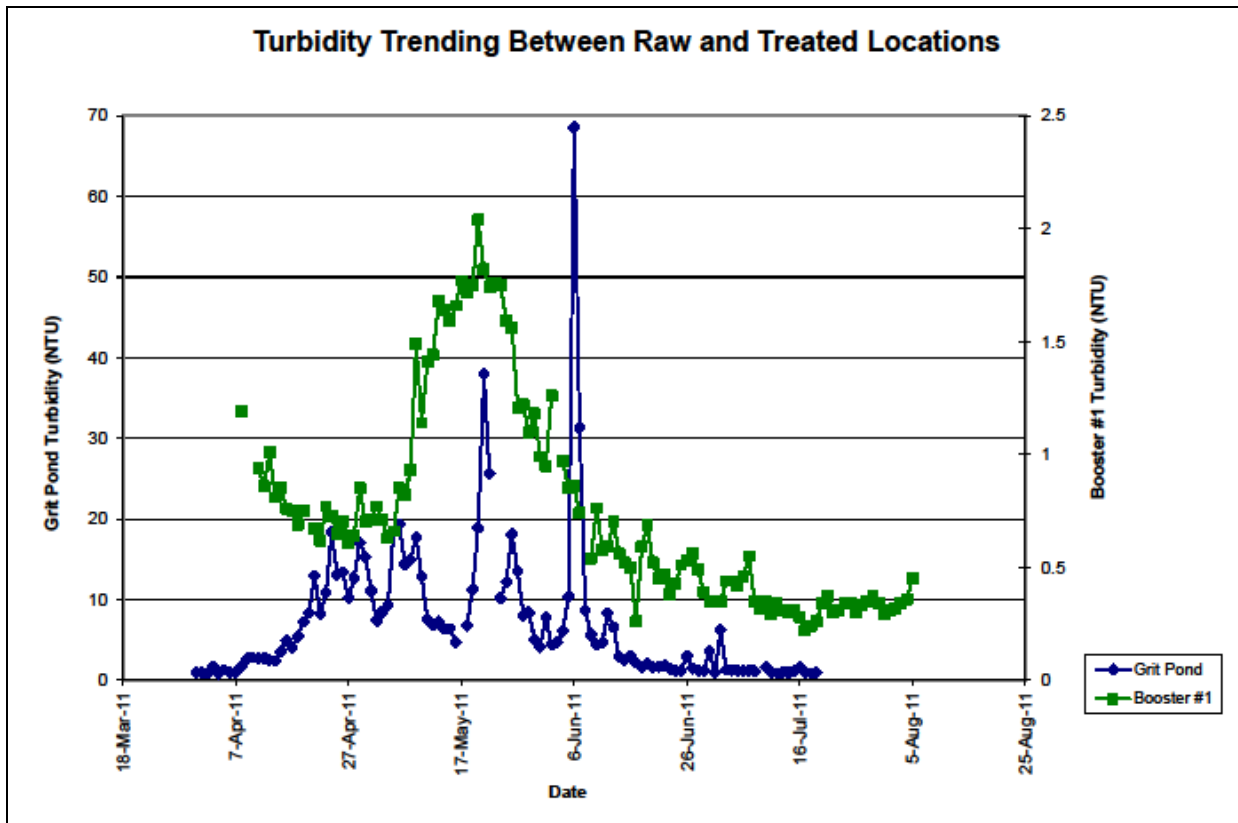


TURBIDITY

As set by the Canadian Drinking Water Guidelines, Black Mountain’s domestic water system turbidity is to be less than 1.0 NTU at all times. In the early months of operation, during the freshet, there were brief periods where the systems turbidity rose above the guideline of 1.0 NTU peaking at 2.04 NTU on May 20, 2011 as measured at Booster Station No. 1. Once the raw water turbidity levels began to decline, and when the chemical dosing difficulties were resolved, acceptable turbidity levels at Booster 1 were achieved.

Average turbidity levels over the treatment period at locations in the water supply system are as follows:

Location	Lab (NTU)	On-line (NTU)
Raw Grit Pond	6.7	
Stevens Intake	0.92	
Stevens Outlet	0.89	
Hadden	0.78	
Screen Works	0.77	0.80
Booster Stn No. 1	0.75	

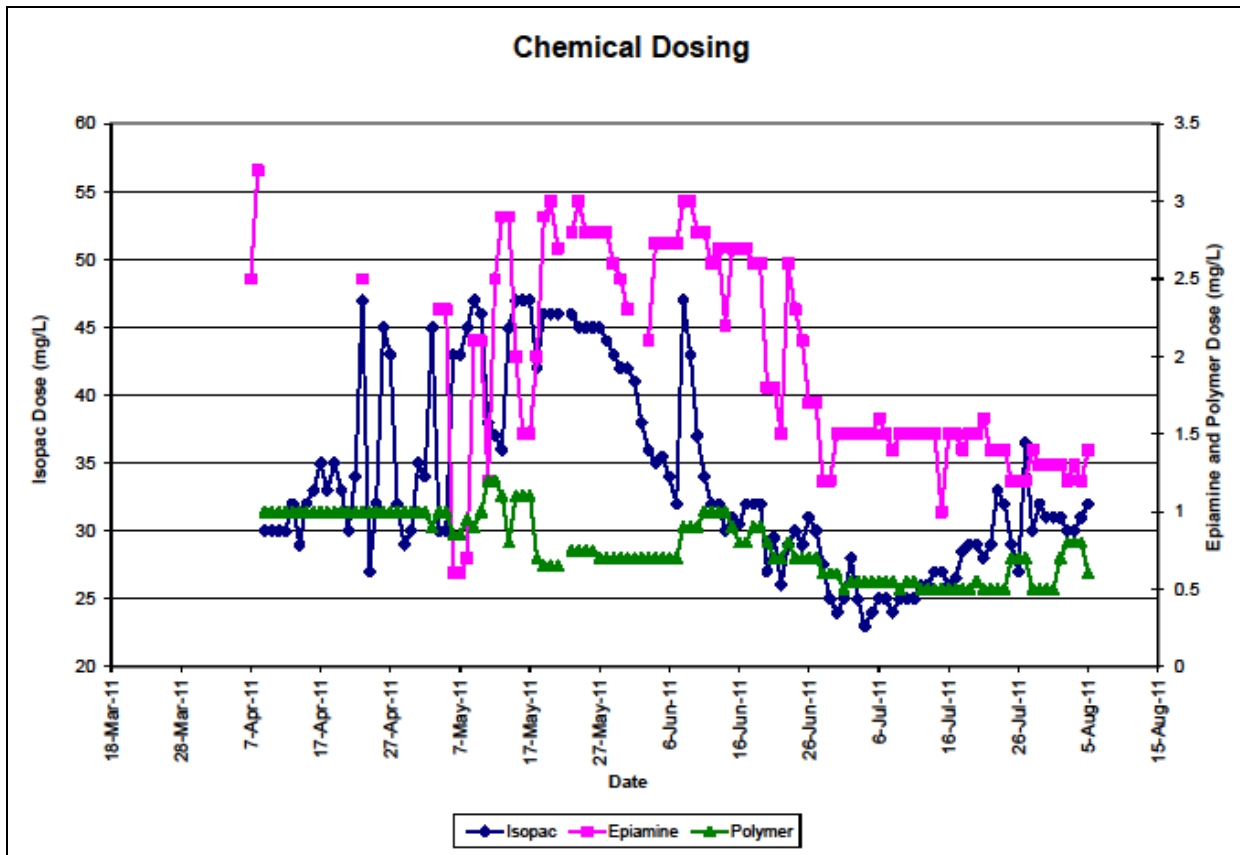


Turbidity trending taken at Grit Pond (raw) and Booster 1 (treated, first customer)



CHEMICAL DOSING

The primary coagulant (Isopac) dose varied between 22 and 49 mg/L with the average being 33.5 mg/L which were similar to previous years. Polymer doses were between 0.50 mg/L and 2.7 mg/L. (average 0.80 mg/L) Epiamine doses ranged between 0.55 and 3.2 mg/L (average 2.0mg/L) Caustic doses ranged between 2.5mg/L and 10.0 mg/L (average 5.7mg/L). Ranges of chemical usage were at similar concentrations to previous years.



Dosing taken as a combined daily average at two clarifiers.



MAINTENANCE & UPGRADING WORKS

Maintenance and upgrading is occurring continuously throughout the year. In 2011, there were several repairs and upgrades that were carried out by District staff and support resources from the water supply industry. These are listed as follows:

- 72' X 18" X 2.03mm stainless steel fish screen was installed at the Grit Pond and supplied by Mearls Machine Shop;
- New motor, rod end, yoke with pin, Viton seal, and guide piston installed for Stream Current Monitor. Supplied by Chemtrac;
- Five new Peristaltic Pumps were purchased to provide more stable chemical dosing;
- A building was purchased to cover both flocculator mixing trains to prevent freezing and overall weathering of the equipment.

Improvements Planned for 2012 and further into the Future:

- Conversion of the SCADA Human Machine Interface (HMI) Software from the outdated Lookout software to IFIX software;
- The purchase of two on-line turbidity meters for the ends of the clarifiers. This would provide the WTP Operators with more timely and accurate monitoring of the treatment process performance. The previously used Suspended Solids Meters have been removed;
- Construction completion of the Cover-All building over the flocculator mixing tanks;
- Purchase of a replacement for Steven's Pond pH probe.

STAFFING

Two employees normally staff the treatment plant during the spring runoff period. Through the 2011 season, Brian Krause carried out these responsibilities for the entire treatment season. Early in the treatment season in 2011, Karen Blair was hired as an operator in training. Karen relocated after a short period of time resulting in a vacant position. As a result, BMID retained a former employee, Ryan Booth, to operate the plant under contract for periods of time to allow time off for Brian Krause. At the end of the treatment season, a new operator, Skyler Brooks, was hired and will be ready for start-up of 2012 season.

Respectfully submitted,
R. Hrasko
Administrator

Operational Costs

Black Mountain Water Treatment Plant

			2011	2010	2009	2008	2007	2006	2005	2004-July	
441	Chemicals	441.1	Isopac	136,441.50	\$ 139,843	124,597	87,318	96,457	110,084	105,000	133,132
		441.2	Polymer	14,500.00	\$ 1,590	21,300	14,910	14,310	39,234	25,000	28,890
		441.3	Caustic soda	55,259.25	\$ 13,246	60,619	20,797	47,879	48,050	30,000	22,295
		441.4	Sodium Hypochlorite		\$ 6,219	8,594	8,173	8,501	16,039	8,000	4,110
		441.5	Epiamine Polymer		\$ 68,205	69,370	0	0	62,824	65,000	0
			Total	206,200.75	\$ 229,103	284,480	131,197	\$206,806	\$297,772	\$233,000	\$188,427
442	Wages	442.1	Wages	82,057.09	\$ 75,376	66,201	49,068	45,526	78,472	70,000	32,940
			Total	82,057.09	\$ 75,376	66,201	49,068	45,526	78,472	\$70,000	32,940
443	Utilities	443.1	Propane	8,301.54	\$ 10,391	8,989.00	13,259			5,000	3,841
		443.2	Electricity	15,109.21	\$ 14,213	12,428.00	12,881			9,500	5,053
		443.3	Telephone	3,531.96	\$ 3,739	3,203	2,724			2,100	1,230
		443.5	Septic Tank	537.15	\$ 470	1,200	309			1,000	629
			Total	27,479.86	\$ 28,813	25,820.00	\$29,490	\$16,669	\$22,481	\$17,600	\$10,753
444	Miscell.	444.1	Clarifier and Sludge Upgds			6,000	27,233			2,000	573
		444.2	Sludge Removal		\$ 441	18,000	11,511			12,500	537
		444.3	Laboratory	2,236.06	\$ 361	1,900				10,000	1,971
		444.4	Instrumentation	13,129.14	\$ 1,220	500				5,000	1,764
		444.5	Cover-All Building	307,375.88							
		444.6	Engineering			500				2,000	5,819
		444.7	Bldg Upgrades	15,965.31	\$ 11,411	9,234				20,000	20,405
		444.8	Other	1,006.87							
		444.9	Pre-Oxidation							5,600	
			Totals	339,713.26	\$ 13,433	36,134	\$50,384	\$39,115	\$58,954	\$57,100	\$31,069
Year Totals				713,552.18	\$ 346,726	346,434	260,139	308,116	457,679	377,700	263,189
Credits				58,101.22	\$ 22,852	19,226.83	17,198	12,042	17,053		9,588
Total Expenditure				655,450.96	\$ 323,874	\$346,434	\$242,941	\$296,074	\$440,625	\$377,700	\$253,601

Average over 8 years

\$ 367,087



Consolidated Financial Statements

Black Mountain Irrigation District

December 31, 2011

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Independent auditors' report

Grant Thornton LLP
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Kelowna, BC
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To the trustees of Black Mountain Irrigation District

We have audited the accompanying consolidated financial statements of Black Mountain Irrigation District, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of operations and accumulated surplus, consolidated statement of changes in net financial assets and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 financial position of Black Mountain Irrigation District as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Public Sector Accounting Standards.

Partners

Kevin Crookes, CA, CBV, CFE
Paul F.S. Gallo, CA
Bryn Gilbert, CA, CBV
James R. Grant, MBA, CA
Anne C. Postlewaite, CA
Martin Rutherford, CA
Dan Vass, CA
J. Kim Ward, CA, CFP

Kelowna, BC
April 4, 2012

Grant Thornton LLP
Chartered accountants

Audit • Tax • Advisory

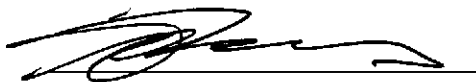
Grant Thornton LLP, A Canadian Member of Grant Thornton International Ltd

Black Mountain Irrigation District

Consolidated statement of financial position

December 31	2011	2010
		(Restated – Note 12)
Financial assets		
Cash	\$ 2,280,121	\$ 2,809,949
Marketable securities	10,427	10,427
Tolls and levies receivable	276,406	257,295
Other receivables	1,695,644	1,592,141
Investments (Note 4)	<u>7,677,975</u>	<u>7,351,989</u>
	<u>11,940,573</u>	<u>12,021,801</u>
Financial liabilities		
Payables and accruals	324,672	359,804
Deferred revenue	193,199	186,679
Deferred capital expenditure charges (Note 5)	5,796,414	5,475,392
Debt (Note 6)	<u>2,039,181</u>	<u>1,746,121</u>
	<u>8,353,466</u>	<u>7,767,996</u>
Net financial assets	<u>3,587,107</u>	<u>4,253,805</u>
Non-financial assets		
Tangible capital assets (Note 7)	41,821,042	40,603,119
Prepaid expenses	8,414	8,416
Inventory (Note 8)	<u>104,178</u>	<u>107,465</u>
	<u>41,933,634</u>	<u>40,719,000</u>
Accumulated surplus (Page 15)	<u>\$ 45,520,741</u>	<u>\$ 44,972,805</u>

On behalf of the Board



Trustee

Black Mountain Irrigation District

Consolidated statement of operations and accumulated surplus

Year ended December 31	2011 <u>Actual</u>	2011 Budget	2010 Actual (Restated – Note 12)
Revenue			
Domestic water tolls	\$ 3,228,889	\$ 3,095,000	\$ 3,101,053
Contributions from developers and others	62,451	-	2,268,242
Interest	322,212	43,000	224,937
Irrigation taxes	388,471	375,000	376,925
Sundry	148,071	17,500	138,662
Equipment rental	136,869	100,000	126,096
Contributions from customers	29,445	-	65,659
Gain on disposal of investments	62,174	-	19,986
Connection fees	49,761	15,000	14,200
New account fee	15,650	13,000	14,360
Sale of water	6,213	7,500	7,280
Gain on disposal of tangible capital assets	-	-	3,460
	<u>4,450,206</u>	<u>3,666,000</u>	<u>6,360,860</u>
Expenditures			
Administrative expenditures (Note 9)	647,444	611,400	639,610
Interest and service charges	3,565	2,500	3,060
Interest on debt	130,677	192,900	192,900
Shortfall on MFA sinking fund repayment	509,079	-	-
Operating expenditures (Note 10)	2,611,505	2,363,388	2,319,996
	<u>3,902,270</u>	<u>3,170,188</u>	<u>3,155,566</u>
Net revenue over expenditures	547,936	495,812	3,205,294
Accumulated surplus, beginning of year	<u>44,972,805</u>	<u>44,972,805</u>	<u>41,767,511</u>
Accumulated surplus, end of year	<u>\$ 45,520,741</u>	<u>\$ 45,468,617</u>	<u>\$ 44,972,805</u>

See accompanying notes to the consolidated financial statements

Black Mountain Irrigation District

Consolidated statement of changes in net financial assets

Year ended December 31	2011 Actual	2011 Budget	2010 Actual (Restated – Note 12)
Net revenues over expenditures	\$ 547,936	\$ 495,812	\$ 3,205,294
Acquisition of tangible capital assets	(2,096,678)	(300,000)	(3,537,346)
Amortization	878,755	800,000	840,459
Gain on disposal of tangible capital assets	-	-	(3,460)
Proceeds from disposal of tangible capital assets	-	-	4,000
Change in prepaid expenses	2	-	1,395
Change in inventory	3,287	-	(27,304)
	<u>(666,698)</u>	<u>995,812</u>	<u>483,038</u>
Net financial assets, beginning of year	<u>4,253,805</u>	<u>4,253,805</u>	<u>3,770,767</u>
Net financial assets, end of year	<u>\$ 3,587,107</u>	<u>\$ 5,249,617</u>	<u>\$ 4,253,805</u>

See accompanying notes to the consolidated financial statements

Black Mountain Irrigation District

Consolidated statement of cash flows

Year ended December 31	2011	2010
		(Restated – Note 12)
Cash provided by (used for)		
Operating		
Net revenue over expenditures	\$ 547,936	\$ 3,205,294
Items not affecting cash		
Gain on disposal of tangible capital assets	-	(3,460)
Gain on disposal of investments	(62,174)	(19,986)
Amortization	878,755	840,459
Developer and other contribution of tangible capital assets	(62,451)	(2,268,242)
 (Increase) decrease in		
Accounts receivable	(122,614)	(422,453)
Prepaid expenses	2	1,395
Inventory	3,287	(27,304)
 Increase (decrease) in		
Payables and accruals	(35,132)	21,485
Deferred revenue	6,520	(2,312)
Deferred development cost charges	321,022	283,126
	<u>1,475,151</u>	<u>1,608,002</u>
Capital		
Acquisition of tangible capital assets	(2,034,228)	(1,269,104)
Proceeds from disposal of tangible capital assets	-	4,000
	<u>(2,034,228)</u>	<u>(1,265,104)</u>
Investing		
Purchase of investments	(1,159,303)	(2,339,726)
Proceeds from disposal of investments	895,492	2,190,536
	<u>(263,811)</u>	<u>(149,190)</u>
Financing		
Issuance (repayment) of debt, net	293,060	(164,232)
 Net (decrease) increase in cash	 (529,828)	 29,476
 Cash, beginning of year	 <u>2,809,949</u>	 <u>2,780,473</u>
 Cash, end of year	 <u>\$ 2,280,121</u>	 <u>\$ 2,809,949</u>
Non-cash capital activities		
Acquisition of tangible capital assets through developer and other contributions	\$ 62,451	\$ 2,268,242

See accompanying notes to the consolidated financial statements

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

1. Nature of business

The District is incorporated under the laws of British Columbia and is engaged in the operation of an Irrigation District in the Rutland area of Kelowna.

2. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

The following is a summary of the District's significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of all funds of the District. All inter-fund transactions and balances have been eliminated on consolidation.

Basis of accounting

The District's consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenditures are recognized as they are incurred and measurable based upon receipt of goods or service and/or the creation of a legal obligation to pay.

Budget figures

The budget figures are adopted annually at the first normal board meeting of the year, are provided for informational purposes only and are not subject to audit.

Inventory

Inventory is stated at the lower of cost and net realizable value. Costs include all expenses directly attributable to the purchase of inventory. 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 any applicable selling expenses.

(continued)

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

2. Summary of significant accounting policies (continued)

Tangible capital assets and amortization

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

Buildings	4% and 10%
Water supply system	0.8% to 10%
Water distribution system	1% to 4%
Office equipment	12.5%
Automotive equipment	10%
Other equipment	10%

Reserve funds

In 1992, the District appropriated operating surplus to create an employee severance reserve to cover accumulating employee sick leave credits potentially payable in future years. Other by-law reserve funds represent an appropriation of fund balance for working capital and sinking fund requirements. The capital works renewal reserve is a statutory reserve restricted for expenditures relating to augmenting the works of the District to ensure an adequate water supply within the District. All charges collected and interest earned for these purposes are required to be segregated from other funds.

Contributions by developers

Additions to the irrigation system constructed and contributed by developers are recorded at their fair value and are capitalized into capital assets and reflected in the consolidated statement of operations and accumulated surplus as income.

Financial instruments

The District's financial instruments consist of cash, marketable securities, receivables, investments, payables and accruals and debt. Unless otherwise noted, it is management's opinion that the District is not exposed to significant credit, liquidity or market risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

(continued)

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

2. Summary of significant accounting policies (continued)

Revenue recognition

Domestic water tolls and irrigation taxes are recorded on the accrual basis and recognized when earned. Connection fees, new account fee and sale of water are recognized when the service or product is provided by the District. Other revenue is recorded as it is earned and measureable. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the District discharges the obligation that led to the collection of funds.

Expenditures

Expenditures are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay.

Use of estimates

The preparation of consolidated financial statements in accordance with Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Future accounting changes

PS 3410 – *Government transfers*

This section replaces the existing Section PS 3410 Government transfers. This section establishes standards for recognition, presentation and disclosure for government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective. This section applies to fiscal years beginning on or after April 1, 2012, with early adoption permitted.

PS 3450 – *Financial instruments*

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to fiscal years beginning on or after April 1, 2015, with early adoption permitted.

PS 2601 – *Foreign currency translation*

This section revises and replaces the existing Section PS 2600 Foreign currency translation. This section applies to fiscal years beginning on or after April 1, 2015, with early adoption permitted.

(continued)

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

3. Future accounting changes (continued)

PS 1201 – Financial statement presentation

This section revises and replaces the existing Section PS 1200 Financial statement presentation. This section applies to fiscal years beginning on or after April 1, 2015, with early adoption permitted.

4. Investments

Investments are comprised of fixed income assets and are carried at cost plus accrued interest with maturity dates ranging from October 2013 through September 2021 and earning interest at rates between 3.53% and 7.55%.

5. Deferred capital expenditure charges (“CEC”)

Pursuant to the provisions of the Local Government Act, capital expenditure charges are held in funds for the purpose for which the charges have been imposed. When the related costs are incurred, the CEC’s are recognized as revenue. Because these funds are restricted in nature they are shown as a liability.

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 5,475,392	\$ 5,192,264
Contributions from developers	121,652	102,110
Interest on investments	199,370	181,018
Bylaw expenditures	-	-
	<u> </u>	<u> </u>
Balance, end of year	<u>\$ 5,796,414</u>	<u>\$ 5,475,392</u>

The balance of deferred capital expenditure charges can be utilized on projects that are identified in the District’s capital expenditure program.

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

6. Debt

During the year, the District entered into a loan with the Royal Bank of Canada bearing interest annually at 3.54% with a term ending July 2021. The funds from the RBC loan were used to pay off the District's debenture debt of \$1,738,092 held with the Ministry of Finance. In addition to paying off the debenture debt, the District was required to pay an additional \$509,079 shortfall payment on the debenture debt sinking fund.

	Initial issuance	Principal payments	2011	2010 Net debt
Royal Bank of Canada	\$ <u>2,127,000</u>	\$ <u>88,000</u>	\$ 2,039,000	\$ 1,738,092
Ford Credit				
Non-interest bearing, secured by charge on a 2007 Ford F-250, due February 10, 2012			<u>181</u>	<u>8,029</u>
Total debt			\$ <u>2,039,181</u>	\$ <u>1,746,121</u>

The aggregate principal payment required in each of the next five years will be as follows:

2012	\$ 213,181
2013	\$ 213,000
2014	\$ 213,000
2015	\$ 213,000
2016	\$ 213,000

7. Tangible capital assets

	Cost	Accumulated amortization	Net book value	2011	2010 Net book value
Land	\$ 2,462,414	\$ -	\$ 2,462,414		\$ 2,462,414
Buildings	1,200,564	521,055	679,509		378,126
Water supply system	8,842,048	2,371,768	6,470,280		6,352,205
Water distribution system	36,804,986	7,042,705	29,762,281		29,638,669
Office equipment	218,976	148,206	70,770		98,142
Automotive equipment	1,379,989	690,848	689,141		652,869
Other equipment	342,429	323,171	19,258		53,501
Work-in-progress	<u>1,667,389</u>	<u>-</u>	<u>1,667,389</u>		<u>967,193</u>
	\$ <u>52,918,795</u>	\$ <u>11,097,753</u>	\$ <u>41,821,042</u>		\$ <u>40,603,119</u>

Work-in-progress represents capital projects under construction but not yet completed, and is valued at cost. Amortization commences once the individual projects are completed.

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

8. Inventory

Inventory recognized in the statement of financial position can be analyzed as follows:

	<u>2011</u>	<u>2010</u>
Fittings, couplings and sleeves	\$ 58,261	\$ 59,011
Clamps	9,081	9,172
Pipe	12,160	12,152
Meters	<u>24,676</u>	<u>27,130</u>
	<u>\$ 104,178</u>	<u>\$ 107,465</u>

In 2011, a total of \$3,287 (2010 - \$2,315) of inventory was included in operations as an expense.

None of the inventory is pledged as securities for debt.

9. Administrative expenditures

	<u>2011</u>	<u>2010</u>
Administrator – management contract	\$ 72,750	\$ 75,371
Building maintenance	3,907	31,038
Computer	16,200	20,988
Dues	5,621	5,950
Legal	11,797	8,859
Miscellaneous	6,443	9,683
Printing, stationery and office	60,502	57,884
Professional fees	23,675	29,060
Salaries and benefits	339,462	317,677
Telephone and utilities	45,663	41,996
Trustee's remuneration and expenses	<u>61,424</u>	<u>41,104</u>
	<u>\$ 647,444</u>	<u>\$ 639,610</u>

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

10. Operating expenditures	<u>2011</u>	<u>2010</u>
Amortization	\$ 878,755	\$ 840,459
B.C. water license	17,136	17,995
Chlorine	37,564	25,138
Dams, head gates patrol and maintenance	27,714	19,598
Digital mapping	291	162
Engineering services	47,681	31,420
Insurance	107,700	101,438
Railway crossing	788	762
Repairs and maintenance		
- irrigation operations	232,102	218,584
- domestic operations	282,671	200,686
- intake and stations	173,590	120,853
- general	90,829	90,306
Small tools and sundry supplies	17,395	23,681
Training	17,390	12,106
Unallocated payroll charges and holiday pay	104,894	98,715
Vehicles and equipment operations	142,140	124,617
Water quality testing	59,206	44,672
Water treatment plant	355,376	324,414
Watershed management engineering	18,283	24,390
	<u>\$ 2,611,505</u>	<u>\$ 2,319,996</u>

11. Related party transactions

Each Trustee of the District receive compensation for attendance at each Board Meetings at the rate of \$202 from January 1, 2011 through April 13, 2011 and \$252 from April 14, 2011 through December 31, 2011 (2010 - \$202). In addition, the Chairman receives additional compensation per month of \$125 from January 1, 2011 through April 13, 2011 and \$400 from April 14, 2011 through December 31, 2011 (2010 - \$125). During 2011, a total of \$61,424 (2010 - \$41,104) in compensation was paid to Trustees.

Transactions with related parties are recorded at the exchange amount, the amount of consideration agreed to between the related parties.

Black Mountain Irrigation District

Notes to the consolidated financial statements

December 31, 2011

12. Correction of error in prior period

In prior years, the District accounted for capital expenditure charges as revenue and accumulated these funds in the capital charge/re-grade reserve as a component of accumulated surplus. The purpose of this reserve was to provide funds to the District to pay capital costs of providing, constructing, altering or expanding water facilities in order to service, directly or indirectly, the development in respect to which the charges are fixed as identified in the District's capital expenditure program. Based on reviewing the Capital Expenditure Charge By-Law No. 678, these funds do not meet the definition of revenue but the definition of a liability because these funds are restricted in nature and therefore should be recorded as deferred revenue.

Consequently, an adjustment was required to reclassify this capital charge/re-grade reserve from accumulated surplus to deferred revenue. As a result, the December 2010 figures presented for comparative purposes have been restated from those previously reported. The retroactive adjustment resulted in the following changes to the 2010 comparative figures:

	<u>Increase (decrease)</u>
Other receivables	\$ 285,866
Deferred revenue	\$ 8,001
Deferred capital expenditure charges	\$ 5,475,392
Net revenue over expenditures	\$ (261,038)
Accumulated surplus	\$ (4,936,489)

13. Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year consolidated financial statements presentation.

Black Mountain Irrigation District

Schedule of tangible capital assets

Year ended December 31, 2011

Cost	Land	Buildings	Water supply system	Water dist. system	Office equipment	Automotive equipment	Other equipment	Work in progress	Total 2011	Total 2010
Opening balance	\$ 2,462,414	\$ 864,549	\$ 8,560,221	\$ 36,129,520	\$ 218,976	\$ 1,229,581	\$ 342,429	\$ 967,193	\$ 50,774,883	\$ 47,253,633
Add:										
- additions to tangible capital assets	-	336,015	147,827	675,466	-	150,408	-	590,534	1,900,250	3,057,845
- receipt of dams	-	-	134,000	-	-	-	-	-	134,000	-
- work-in-progress	-	-	-	-	-	-	-	136,869	136,869	479,504
Less: disposals	-	-	-	-	-	-	-	(27,207)	(27,207)	(16,099)
Closing balance	<u>2,462,414</u>	<u>1,200,564</u>	<u>8,842,048</u>	<u>36,804,986</u>	<u>218,976</u>	<u>1,379,989</u>	<u>342,429</u>	<u>1,667,389</u>	<u>52,918,795</u>	<u>50,774,883</u>
Accumulated amortization										
Opening balance	-	486,423	2,208,016	6,490,851	120,834	576,713	288,928	-	10,171,764	9,346,864
Add:										
- amortization	-	34,632	116,519	551,854	27,372	114,135	34,243	-	878,755	840,459
- receipt of dams	-	-	47,234	-	-	-	-	-	47,234	-
Less: accumulated amortization on disposals	-	-	-	-	-	-	-	-	-	(15,559)
Closing balance	<u>-</u>	<u>521,055</u>	<u>2,371,768</u>	<u>7,042,705</u>	<u>148,206</u>	<u>690,848</u>	<u>323,171</u>	<u>-</u>	<u>11,097,753</u>	<u>10,171,764</u>
Net book value, December 31, 2011	<u>\$ 2,462,414</u>	<u>\$ 679,509</u>	<u>\$ 6,470,280</u>	<u>\$ 29,762,281</u>	<u>\$ 70,770</u>	<u>\$ 689,141</u>	<u>\$ 19,258</u>	<u>\$ 1,667,389</u>	<u>\$ 41,821,042</u>	<u>\$ 41,821,042</u>
Net book value, December 31, 2010	<u>\$ 2,462,414</u>	<u>\$ 378,126</u>	<u>\$ 6,352,205</u>	<u>\$ 29,638,669</u>	<u>\$ 98,142</u>	<u>\$ 652,869</u>	<u>\$ 53,501</u>	<u>\$ 967,193</u>	<u>\$ 40,603,119</u>	<u>\$ 40,603,119</u>

Black Mountain Irrigation District

Schedule of accumulated surplus

December 31, 2011

	General operations	Equip. replacement reserve	Employee severance reserve	Capital works renewal reserve	Capital charge/upgrade reserve	Investment in tangible capital assets	Total 2011	Total 2010
Accumulated surplus, beginning of year, as previously reported	\$ 1,598,080	\$ 138,045	\$ 70,000	\$ 4,277,761	\$ 5,229,444	\$ 38,857,003	\$ 50,170,333	\$ 46,704,000
Correction of error in prior period (Note 11)	<u>31,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,229,444)</u>	<u>-</u>	<u>(5,197,528)</u>	<u>(4,936,489)</u>
Accumulated surplus, beginning of year, as restated	1,629,996	138,045	70,000	4,277,761	-	38,857,003	44,972,805	41,767,511
Net revenue over expenditures	1,798,902	-	-	-	-	(1,250,966)	547,936	3,205,294
Transfers								
- acquisition of tangible capital assets	(2,096,678)	-	-	-	-	2,096,678	-	-
- interest	(165,640)	5,178	-	160,462	-	-	-	-
- repayment of debt	<u>(216,019)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>216,019</u>	<u>-</u>	<u>-</u>
Accumulated surplus, end of year	<u>\$ 950,561</u>	<u>\$ 143,223</u>	<u>\$ 70,000</u>	<u>\$ 4,438,223</u>	<u>\$ -</u>	<u>\$ 39,918,734</u>	<u>\$ 45,520,741</u>	<u>\$ 44,972,805</u>

Black Mountain Irrigation District
285 Gray Rd
Kelowna BC V1X 1W8

Attention: Members of the Board of Trustees

April 4, 2012

Grant Thornton LLP
200 - 1633 Ellis Street
Kelowna, BC
V1Y 2A8
T (250) 712-6800
(800) 661-4244 (Toll Free)
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www.GrantThornton.ca

To the members of the Board of Trustees of Black Mountain Irrigation District:

We are pleased to report that we have now substantially completed our audit of the consolidated financial statements of Black Mountain Irrigation District for the year ended December 31, 2011. The results of these audits are included in this letter.

Status of the audit

The following items need to be addressed/ completed before the release of our audit report:

- receipt of signed management representation letter; and
- approval of the consolidated financial statements by the Board of Trustees.

Our responsibility

Our function as auditors of Black Mountain Irrigation District is to report to the Trustees by expressing an opinion on whether the consolidated financial statements are free from material misstatement and present fairly the financial position, results of operations and cash flows in accordance with Public Sector Accounting Standards. We conducted our audits in accordance with Canadian generally accepted auditing standards. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. 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. Our audit was designed to provide reasonable but not absolute assurance that there are no misstatements in the consolidated financial statements resulting from fraud because fraud is usually accompanied by acts designed to conceal its existence. 2/1

The audit of the consolidated financial statements does not relieve management of those charged with governance of their responsibilities. Our audit was undertaken on a risk based approach; more audit effort is directed in areas where there is a higher risk of material misstatement.

Partners
Kevin Crookes, CA, CBV, CFE
Paul F.S. Gallo, CA
Bryn Gilbert, CA, CBV
James R. Grant, MBA, CA
Anne C. Postlewaite, CA
Martin Rutherford, CA
Dan Vass, CA
J. Kim Ward, CA, CFP

Independence

We have a rigorous process where we continually monitor and maintain our independence. The process of maintaining our independence includes, but is not limited to:

- Identification of threats to our independence and putting into place safeguards to mitigate those threats. For example, we evaluate the independence threat of any non-audit services provided to Black Mountain Irrigation District.
- Confirming the independence of our engagement team members.

In accordance with the *Canadian Institute of Chartered Accountants (CICA) Handbook* Section 260.17, we advise that we are independent of Black Mountain Irrigation District and have confirmed this in a separate letter dated November 22, 2011.

Internal control

The primary objective of an audit is to express an opinion on the consolidated financial statements. To meet this objective, we obtained an understanding of internal control relevant to the audit when identifying and assessing the risks of material misstatement. In making those risk assessments, we considered internal control 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 internal control.

During the course of performing our audit, we identified areas for improvement in internal control. Our comments and recommendations on the matter have been provided in a separate internal control letter dated April 4, 2012.

Fraud and illegal acts

Our inquiries of management did not reveal any fraud or illegal acts. Furthermore, nothing has come to our attention that indicates any trustee, officer or senior employee may have an interest that is in conflict with their responsibilities to Black Mountain Irrigation District.

Legal or regulatory issues

Our audit procedures included a review of all legal counsel correspondence and a review of legal inquiries regarding possible legal contingencies. Furthermore, our audit procedures included consideration of any regulatory issues that affect the operation or financial reporting framework of the District. There were no legal matters noted that require disclosure in the consolidated financial statements.

There were no regulatory matters reported by District regulators that require disclosure in the consolidated financial statements.

Summary of misstatements

Misstatements identified and adjusted in the consolidated financial statements by Black Mountain Irrigation District as a result of our audit procedures are included with the representation letter.

Non-trivial misstatements noted during the course of our audit but not adjusted in the consolidated financial statements were as follows:

Unadjusted misstatements	Increase (Decrease)			
	Assets	Liabilities	Equity	Earnings
To reverse effects of prior year passed adjusting journal entries	\$	\$	\$ 1,447	\$ (1,447)
To adjust inventory to actual		(1,921)		1,921
To book 2011 unrecorded liability for trade payables		14,586		(14,586)
To adjust accumulated amortization to actual	(3,702)		(3,702)	
To adjust interest receivable to actual	49,404	40,376	15,367	(7,232)
To adjust connection fee revenue to actual			28,411	
Total	\$ 45,702	\$ 58,041	\$ 12,125	\$ (14,901)

We have discussed and requested with management and requested that the identified amounts be adjusted. Management has concluded that these misstatements will not be corrected because they are, individually and in aggregate, not material to the consolidated financial statements of Black Mountain Irrigation District.

Summary of disclosure matters

Our audit did not identify any misstatements of disclosure.

Correction of error in prior period

In prior years, the District accounted for capital expenditure charges as revenue and accumulated these funds in the capital charge/re-grade reserve as a component of accumulated surplus. The purpose of this reserve is to provide funds to the District to pay capital costs of providing, constructing, altering or expanding water facilities in order to service, directly or indirectly, the development in respect to which the charges are fixed as identified in the District's capital expenditure program. Based on reviewing the Capital Expenditure Charge By-Law No. 678, it was decided that these funds do not meet the definition of revenue but the definition of a liability and therefore should be recorded as deferred revenue instead of revenue as the District has done in the past. Consequently, an adjustment was required to reclassify this capital charge/re-grade reserve from accumulated surplus to deferred revenue. As a result, the December 2010 figures presented for comparative purposes have been restated from those previously reported.

Accumulated surplus reclassification

Regarding work-in-progress, the District has historically recorded internally generated capital expenditures as invested in capital assets once individual capital projects are complete. The District has reassessed this policy and concluded that capital expenditures should be recognized as invested in capital assets as they are incurred and that this policy should be applied retroactively. Accordingly, \$967,193 has been reallocated from general operating surplus to investment in capital assets in accumulated surplus, beginning of year. There is no effect on accumulated surplus over all.



Additional services

In addition to providing an audit opinion we have been engaged to perform the following additional services:

- preparation of corporate T2 income tax return

Significant new accounting policies

There were no significant new accounting policies during the year.

Sensitive accounting estimates and disclosures

During the course of our audit, we noted the following sensitive accounting estimates and disclosures:

- employee benefit accrual; and
- estimation of useful life of tangible capital assets and the related amortization.

As a result of our audit work related to these estimates, nothing came to our attention that would lead us to believe that the estimates were materially misstated.

Related party transactions not in the normal course of operations

During the course of our audit, we did not note any related party transactions that were not in the normal course of operation.

Cooperation during the audit

We report that we received cooperation from management and the employees of Black Mountain Irrigation District. To our knowledge, we were provided access to all necessary records and other documentation and any issues that arose as a result of our audit were discussed with management and have been resolved to our satisfaction.

Consultations with other accountants

To our knowledge, management did not seek the advice or opinion of other external accountants on financial reporting or accounting matters.

Yours sincerely,
Grant Thornton LLP

Martin Rutherford, CA
Partner

cc: Members of management