

Financial Statements of

**DUNCAN - NORTH COWICHAN JOINT
UTILITIES BOARD**

Year ended December 31, 2025

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Financial Statements

Year ended December 31, 2025

Financial Statements

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Duncan - North Cowichan Joint Utilities Board (the "the Board") are the responsibility of management and have been prepared in compliance with applicable legislation and in accordance with public sector accounting principles for local governments established by 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 the Board'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 consolidated 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 acceptance of the consolidated financial statements.

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

Teri Vetter

Chief Financial Officer



KPMG LLP

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Councilors of Duncan - North Cowichan Joint Utilities Board

Opinion

We have audited the financial statements of the Duncan - North Cowichan Joint Utilities Board (the "Entity"), which comprise:

- the statement of financial position as at end of December 31, 2025
- the statement of operations for the year then ended
- the statement of changes in net debt 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2025 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's 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 ethical 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 and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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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.

Auditor's 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 auditor's 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.



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- 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 auditor's 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 auditor's report. However, future events or conditions may cause the Entity 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that tapers at both ends, serving as a decorative underline.

Chartered Professional Accountants

Victoria, Canada
May 7, 2026

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Statement of Financial Position

December 31, 2025, with comparative information for 2024

	2025	2024
Financial assets:		
Investments and marketable securities	\$ 4,685,949	\$ 4,609,104
Liabilities:		
Deferred revenue	1,775,857	1,911,905
Asset retirement obligation (note 2)	43,847,449	50,453,431
	45,623,306	52,365,336
Net debt	(40,937,357)	(47,756,232)
Non-financial assets:		
Tangible capital assets (note 3)	42,602,219	49,102,417
Accumulated surplus (note 4)	\$ 1,664,862	\$ 1,346,185

Commitments and contingencies (note 5)

See accompanying notes to financial statements.

On behalf of the the Board:

Teri Vetter

Chief Financial Officer

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Statement of Operations

Year ended December 31, 2025, with comparative information for 2024

	Financial plan (note 7)	2025	2024
Revenues:			
The Corporation of the District of North Cowichan	\$ 4,515,791	\$ 2,272,811	\$ 924,339
The Corporation of the City of Duncan	2,599,153	1,266,649	482,807
Cowichan Valley Regional District	1,144,975	596,607	256,409
Cowichan Tribes	259,928	125,007	43,123
Return on investments	-	102,376	124,357
Grants and government transfers	159,558	417,202	283,898
Total revenue	8,679,405	4,780,652	2,114,933
Expenses (note 6):			
Administration	74,680	66,384	63,847
Amortization	-	1,070,924	1,312,412
Accretion	-	1,992,305	2,186,492
Sewer lagoon operations and maintenance	1,419,969	1,332,362	1,284,029
Total expenses	1,494,649	4,461,975	4,846,780
Annual surplus (deficit)	7,184,756	318,677	(2,731,847)
Accumulated surplus, beginning of year	1,346,185	1,346,185	4,078,032
Accumulated surplus, end of year	\$ 8,530,941	\$ 1,664,862	\$ 1,346,185

See accompanying notes to financial statements.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Statement of Change in Net Financial Assets

Year ended December 31, 2025, with comparative information for 2024

	Financial plan (note 7)	2025	2024
Annual surplus (deficit)	\$ 7,184,756	\$ 318,677	\$ (2,731,847)
Acquisition of tangible capital assets	(7,069,556)	(3,169,013)	(527,499)
Amortization of tangible capital assets	-	1,070,924	1,312,412
Accretion expense	-	1,992,305	2,186,492
Asset retirement obligation	-	6,605,982	3,141,828
	(7,069,556)	6,500,198	6,113,233
Change in net debt	115,200	6,818,875	3,381,386
Net debt, beginning of year	(47,756,232)	(47,756,232)	(51,137,618)
Net debt, end of year	\$ (47,641,032)	\$ (40,937,357)	\$ (47,756,232)

See accompanying notes to financial statements.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Statement of Cash Flows

Year ended December 31, 2025, with comparative information for 2024

	2025	2024
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 318,677	\$ (2,731,847)
Items not involving cash:		
Amortization of tangible capital assets	1,070,924	1,312,412
Accretion on asset retirement obligation	1,992,305	2,186,492
	3,381,906	767,057
Changes in non-cash operating assets and liabilities:		
Deferred revenue	(136,048)	(43,029)
	3,245,858	724,028
Capital activities:		
Acquisition of tangible capital assets	(3,169,013)	(527,499)
Investing activities:		
Purchase of investments	(76,845)	(196,529)
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Notes to Financial Statements

Year ended December 31, 2025

Duncan - North Cowichan Joint Utilities Board ("JUB" or "the Board") was formed by bylaw in 1977 by the Councils of The Corporation of the City of Duncan and The Corporation of the District of North Cowichan to exercise the provisions of the Municipal Act by entering into an agreement for the joint financing, construction, operation and maintenance of certain municipal utilities and sewerage facilities for the benefit of both municipalities. JUB is governed by two members from City of Duncan Council and two members from the Municipality of North Cowichan Council.

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

1. Significant accounting policies:

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

(a) Basis of accounting:

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

(b) Financial instruments:

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

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

Unrealized changes in fair value are recognized in the Statement of Remeasurement Gains and Losses until they are realized, when they are transferred to the Statement of Operations. There are no unrealized gains or losses and accordingly, a separate statement of remeasurement gains and losses has not been included in these financial statements.

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(b) Financial instruments (continued)

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

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

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

(c) Asset retirement obligations:

An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset that North Cowichan will be required to settle. The District recognizes asset retirement obligations when there is a legal obligation to incur retirements costs in relation to a tangible capital asset, the past transaction or event giving rise to the liability has occurred, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount can be made.

Asset retirement obligations are initially measured at the best estimate of the amount required to retire a tangible capital asset at the financial statement date. The estimate of a liability includes costs directly attributable to asset retirement activities. Asset retirement obligations are recorded as liabilities with a corresponding increase to the carrying amount of the related tangible capital asset being amortized with the buildings following the amortization policies.

At each financial reporting date, the District reviews the carrying amount of the liability. The District recognizes period-to-period changes to the liability due to the passage of time as accretion expense. Changes to the liability arising from revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate are recognized as an increase or decrease to the carrying amount of the related tangible capital asset. The District continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

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Notes to Financial Statements (continued)

Year ended December 31, 2025

1. Significant accounting policies (continued):

(d) Revenue recognition:

Revenues from transactions without performance obligations are recognized when the Board has the right to claim or retain an inflow of economic resources received or receivable and there is a past transaction or event that gives rise to the economic resources. Revenues from transactions with performance obligations are recognized when (at a point in time) or as (over a period of time) the Board satisfies the performance obligations, which occurs when control of the benefits associated with the promised goods or services has passed to the payor.

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. Government transfers with stipulations restricting their use are recognized in the financial statements as revenues in the period in which eligible expenses are incurred provided they are authorized and meet eligibility criteria.

(e) Leases:

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

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets and asset retirement obligations. Actual results could differ from these estimates.

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Notes to Financial Statements (continued)

Year ended December 31, 2025

2. Asset retirement obligations:

The Board has a lease obligation that requires the full remediation of the land it leases to operate and maintain joint sewer lagoons to be returned to its original state at the end of the lease. Following the adoption of PS 3280 - Asset retirement obligations, the Board recognized an obligation relating to full remediation of the leased lands as estimated at January 1, 2023. The lease term was for 49 years and expires on July 31, 2060. Estimated costs have been discounted using the present value calculation with a discount rate of 4.53% (2024 - 4.17%) The increase in these capital assets is amortized on a straight-line basis over the remaining term of the lease.

Discount and inflation rates in the future are estimates and subject to change. These changes can impact ARO's value significantly when being applied over an extended period of time.

	2025	2024
Balance, beginning of year	\$ 50,453,431	\$ 53,595,259
Change in estimated cash flows	(8,598,287)	(5,328,320)
Accretion expense	1,992,305	2,186,492
Balance, end of year	\$ 43,847,449	\$ 50,453,431

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2025

3. Tangible capital assets:

	Buildings	Engineering structures	Machinery	Work-in-process	Total 2025	Total 2024
Cost:						
Balance, beginning of year	\$ 192,388	\$ 48,606,972	\$ 706,581	\$ 3,097,823	\$ 52,603,764	\$ 57,404,585
Additions	-	-	-	3,169,013	3,169,013	527,499
Change in estimate	-	8,598,287	-	-	8,598,287	5,328,320
Balance, end of year	192,388	40,008,685	706,581	6,266,836	47,174,490	52,603,764
Accumulated amortization:						
Balance, beginning of year	34,069	3,217,031	250,247	-	3,501,347	2,188,935
Amortization	4,809	1,030,786	35,329	-	1,070,924	1,312,412
Balance, end of year	38,878	4,247,817	285,576	-	4,572,271	3,501,347
Net book value, end of year	\$ 153,510	\$ 35,760,868	\$ 421,005	\$ 6,266,836	\$ 42,602,219	\$ 49,102,417

4. Capital reserve funds:

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

	2025	2024
Balances, beginning of year	\$ 2,697,198	\$ 2,457,641
Add: transfers from current operations	217,576	239,557
Balance, end of year	\$ 2,914,774	\$ 2,697,198

DUNCAN - NORTH COWICHAN JOINT UTILITIES BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2025

5. Commitments and contingencies:

The Board leases the sewage lagoon lands under an operating lease which expires July 31, 2060. Lease payments for 2025 were \$442,426 (2024 - \$432,902) and have an annual increase of 2.2%. The total lease payments over the remaining term are estimated at \$23.5 million.

6. Classification of expenditure by object:

	2025	2024
Salaries, wages and employee benefits	\$ 269,962	\$ 272,061
Contract services	36,717	65,805
Amortization	1,070,924	1,312,412
Accretion	1,992,305	2,186,492
Materials and supplies	649,642	577,108
Land rent	442,426	432,902
Total expenditure by object	\$ 4,461,976	\$ 4,846,780

7. Financial plan data:

The budget data presented in these financial statements is based upon the 2025-2029 Financial Plan Bylaw adopted by council February 7, 2024. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

Financial Plan Bylaw surplus for the year	\$	-
Add-back:		
Capital expenditures		7,069,556
Budgeted transfers to reserve funds		115,200
	\$	7,184,756
