

**ELK POINT/ST. PAUL
REGIONAL WATER SERVICES COMMISSION
Financial Statements
For The Year Ended December 31, 2015**

INDEPENDENT AUDITORS' REPORT

To the Members of the Elk Point/St. Paul Regional Water Services Commission

We have audited the accompanying financial statements of the Elk Point St. Paul Regional Water Commission, which comprise the statement of financial position as at December 31, 2015 and the statements of operations and accumulated surplus, changes in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Elk Point/St. Paul Regional Water Services Commission as at December 31, 2015 and the results of its operations, changes in its net financial assets (debt), and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of the Elk Point/St. Paul Regional Water Services Commission for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on April 13, 2015.



Edmonton, Alberta
July 7, 2016

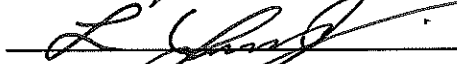
Hawkings Epp Dumont LLP
Chartered Accountants

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	2015	2014 <i>(Restated)</i> <i>(Note 13)</i>
FINANCIAL ASSETS		
Cash	\$ 459,515	\$ 51,301
Receivable from other governments <i>(Note 3)</i>	391,579	128,682
Other receivables <i>(Note 4)</i>	-	24,006
Investments	11	11
	<u>851,105</u>	<u>204,000</u>
LIABILITIES		
Accounts payable and accrued liabilities	261,593	51,291
Deferred revenue <i>(Note 6)</i>	480,723	50,679
Long term debt <i>(Note 7)</i>	701,786	720,758
	<u>1,444,102</u>	<u>822,728</u>
NET DEBT	<u>(592,997)</u>	<u>(618,728)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets <i>(Schedule 2)</i>	7,781,799	7,929,835
Prepaid expenses	884	-
	<u>7,782,683</u>	<u>7,929,835</u>
ACCUMULATED SURPLUS <i>(Schedule 1)</i>	<u>\$ 7,189,686</u>	<u>\$ 7,311,107</u>

ON BEHALF OF THE COMMISSION:

 Chairman

 Treasurer

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

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 (Budget) <i>(Unaudited)</i>	2015 (Actual)	2014 <i>(Restated)</i> <i>(Note 13)</i>
REVENUE			
Provincial government transfers for operating	\$ -	\$ 3,639,741	\$ 523,389
Water sales <i>(Note 11)</i>	12,888	338,990	214,349
Local government transfers for operating	51,552	63,809	24,452
Expense recoveries	-	38,503	51,299
Interest income	-	13,429	2,179
	<u>64,440</u>	<u>4,094,472</u>	<u>815,668</u>
EXPENSES			
Transfers to local government	-	3,636,984	523,389
Water purchases	270,000	249,601	190,387
Amortization of tangible capital assets	-	176,484	176,484
Contracted services	46,610	74,769	37,404
Bad debts	-	38,865	-
Material, goods and utilities	24,000	32,944	32,203
Interest on long term debt	-	25,119	12,804
Town of Elk Point administration contract	6,000	17,000	12,000
Bank charges	-	-	3,710
	<u>346,610</u>	<u>4,251,766</u>	<u>988,381</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE OTHER REVENUE	(282,170)	(157,294)	(172,713)
OTHER REVENUE			
Government transfers for capital <i>(Note 6)</i>	-	35,873	431,664
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	<u>(282,170)</u>	<u>(121,421)</u>	<u>258,951</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR, AS PREVIOUSLY STATED			
	7,311,107	7,863,574	7,018,317
Prior period adjustments <i>(Note 13)</i>	-	(578,379)	33,839
ACCUMULATED SURPLUS, BEGINNING OF YEAR, AS RESTATED	<u>7,311,107</u>	<u>7,311,107</u>	<u>7,052,156</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 7,028,937</u>	<u>\$ 7,189,686</u>	<u>\$ 7,311,107</u>

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
STATEMENT OF CHANGES IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 (Budget) <i>(unaudited)</i>	2015 (Actual)	2014 (Restated) (Note 13)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (282,170)	\$ (121,421)	\$ 258,951
Acquisition of tangible capital assets	-	(28,448)	(1,088,063)
Amortization of tangible capital assets	-	176,484	176,484
	(282,170)	26,615	(652,628)
Acquisition of prepaids	-	(884)	-
INCREASE (DECREASE) IN NET FINANCIAL ASSETS (DEBT)	(282,170)	25,731	(652,628)
NET FINANCIAL ASSETS (DEBT) - BEGINNING OF YEAR, AS PREVIOUSLY STATED	(618,728)	(618,728)	61
Prior period adjustments (Note 13)	-	-	33,839
NET FINANCIAL ASSETS (DEBT) - BEGINNING OF YEAR, RESTATED	(652,833)	(618,728)	33,900
NET DEBT - END OF YEAR	\$ (900,898)	\$ (592,997)	\$ (618,728)

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014 <i>(Restated)</i> <i>(Note 13)</i>
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (121,421)	\$ 258,951
Non-cash item not included:		
Amortization of tangible capital assets	<u>176,484</u>	176,484
	<u>55,063</u>	435,435
Changes in non-cash working capital balances related to operations:		
Receivable from other governments	(262,897)	5,586
Accounts payable and accrued liabilities	210,303	(124,435)
Prepaid expenses	(884)	-
Deferred revenue	430,044	9,662
Other receivables	<u>24,006</u>	65,995
	<u>400,572</u>	(43,192)
	<u>455,635</u>	392,243
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	<u>(28,448)</u>	(1,088,063)
FINANCING ACTIVITIES		
Proceeds from long term debt	-	730,000
Repayment of long term debt	<u>(18,973)</u>	(9,242)
	<u>(18,973)</u>	720,758
INCREASE IN CASH	408,214	24,938
CASH, BEGINNING OF YEAR	<u>51,301</u>	26,363
CASH, END OF YEAR	<u>\$ 459,515</u>	\$ 51,301

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2015

(Schedule 1)

	Equity in Tangible Capital Assets	Restricted Surplus <i>(Note 9)</i>	Unrestricted Surplus	2015	2014 <i>(Restated)</i> <i>(Note 13)</i>
ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR, AS PREVIOUSLY STATED	\$ 7,795,650	\$ 70,696	\$ (2,772)	\$ 7,863,574	\$ 7,018,317
Prior period adjustments <i>(Note 13)</i>	(597,053)	-	44,586	(552,467)	33,839
ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR, AS RESTATED	7,198,597	70,696	41,814	7,311,107	7,052,156
Deficiency of revenues over expenses	-	-	(121,421)	(121,421)	258,951
Amortization of tangible capital assets	(176,484)	-	176,484	-	-
Purchase of tangible capital assets	28,448	-	(28,448)	-	-
Repayment of long term debt	18,973	-	(18,973)	-	-
Transfer to operating reserve	-	18,553	(18,553)	-	-
Transfer from capital reserve	-	(2,233)	2,233	-	-
ACCUMULATED SURPLUS, END OF YEAR	\$ 7,069,534	\$ 87,016	\$ 33,136	\$ 7,189,686	\$ 7,311,107

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

**Schedule of Tangible Capital Assets
For The Year Ended December 31, 2015**

(Schedule 2)

	Engineered Structures	Buildings	Machinery & Equipment	Work in Progress	2015	2014
COST						
Balance, beginning of the year	\$ 7,034,812	\$ 669,645	\$ 401,862	\$ -	\$ 8,106,319	\$ 7,018,256
Additions	28,448	-	-	-	28,448	1,088,063
Balance, end of year	7,063,260	669,645	401,862	-	8,134,767	8,106,319
ACCUMULATED AMORTIZATION						
Balance, beginning of year	140,696	13,392	22,396	-	176,484	-
Amortization	140,696	13,392	22,396	-	176,484	176,684
Balance, end of year	281,392	26,784	44,792	-	352,968	176,684
NET BOOK VALUE 2015	\$ 6,781,868	\$ 642,861	\$ 357,070	\$ -	\$ 7,781,799	\$ -
NET BOOK VALUE 2014	\$ 6,894,116	\$ 656,253	\$ 379,466	\$ -	\$ -	\$ 7,929,635

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2015

1. PURPOSE OF THE COMMISSION

The Elk Point/St. Paul Regional Water Services Commission (the "Commission") was incorporated under the *Municipal Government Act* on March 15, 2012 and established by Alberta Regulation 52/2012 for the purpose of constructing, maintaining and operating a water transmission system. The Commission is exempt from income tax under section 149(1)(d) of the *Income Tax Act*.

The Commission's members are the County of St. Paul and the Town of Elk Point.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions regarding significant items such as amounts relating to deferred revenue that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized above. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

(c) Cash

Cash consists of deposits held with a Canadian financial institution less any cheques written in excess of the bank balance.

(d) Non-Financial Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial assets (debt) for the year.

(continues)

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Tangible Capital Assets

Tangible capital assets are stated at cost less accumulated amortization and any provision for impairment. Where an asset is disposed of, the gain or loss recognized in the statement of operations is calculated as the difference between the net sale price and the carrying amount of the fixed asset. Contributed assets are recorded at fair value at the date of contribution. Assets under construction are not amortized until the asset is put into use.

Depreciation of cost is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component from the date that they are available for use, as this most closely reflects the expected usage of the assets. The estimated economic useful lives and methods of depreciation are reviewed annually with any changes adopted on a prospective basis.

Machinery & Equipment, Instrumentation, 10-25 years

Buildings, Pumphouse, 50 years

Engineered Structures, Pipeline, 50 years

The Commission regularly reviews its tangible capital assets to eliminate obsolete items.

(f) Revenue Recognition

Sales of water are recognized as revenue in the period in which the water is supplied to the customer.

Investment income is recognized as revenue when earned.

(g) Government Transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue 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 determined.

(h) Restricted Surplus

Reserves are established at the discretion of the Board to set aside funds for future operating and capital expenditures.

The Commission maintains an Operating Reserve to manage and mitigate the impact of change in revenue requirements and therefore reduce the impact on rates charged from year-to-year.

The Commission maintains a Capital Reserve Fund to support a portion of future capital acquisition and development requirements in order to maintain an appropriate ratio of equity in tangible capital assets.

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2015

3. RECEIVABLE FROM OTHER GOVERNMENTS

	<u>2015</u>	<u>2014</u>
Town of St. Paul	\$ 357,567	\$ 34,104
Town of Elk Point	27,847	81,162
County of St. Paul	<u>6,165</u>	<u>13,416</u>
	\$ 391,579	\$ 128,682

No allowance for doubtful accounts was required at December 31, 2015 or December 31, 2014.

4. OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
Trade accounts receivables	\$ 38,865	\$ 24,006
Allowance for doubtful accounts	<u>(38,865)</u>	<u>-</u>
	\$ -	\$ 24,006

5. DEMAND LOAN FACILITY

The Commission has established a demand loan facility with a maximum balance of \$270,000 bearing interest at prime. No funds were drawn against this facility at December 31, 2015 or December 31, 2014.

6. DEFERRED REVENUE

Deferred revenue consists of unspent funds received from the Government of Alberta under the Alberta Municipal Water/Wastewater Partnership for the Elk Point/St. Paul Regional Water Pipeline project (disclosed below as "Water for Life program"). These amounts are recognized as revenue in the period in which the related expenditures are incurred.

	Balance, Beginning of Year	Funding Received	Funding Used	Balance, End of Year
Water for Life Program	\$ 47,922	\$ 4,105,658	\$ 3,672,857	\$ 480,723
Alberta Transportation	2,757	-	2,757	-
	<u>\$ 50,679</u>	<u>\$ 4,105,658</u>	<u>\$ 3,675,614</u>	<u>\$ 480,723</u>

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2015

7. LONG TERM DEBT

	<u>2015</u>	<u>2014</u>
Alberta Capital Finance Authority debenture bearing interest at 3.508% per annum, repayable in semi-annual blended instalments of \$22,046; due in June 2039; issued for financing the regional waterline construction.	<u>\$ 701,786</u>	<u>\$ 720,758</u>

Principal repayment terms are approximately:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 19,644	\$ 24,448	\$ 44,092
2017	20,339	23,753	44,092
2018	21,059	23,033	44,092
2019	21,804	22,288	44,092
2020	22,576	21,516	44,092
Thereafter	<u>596,364</u>	<u>219,336</u>	<u>815,700</u>
	<u>\$ 701,786</u>	<u>\$ 334,374</u>	<u>\$ 1,036,160</u>

The current portion of the long term debt amounts is \$19,644 (2014 - \$18,973).

The Commission's total cash payments for interest in 2015 was \$25,119 (2014 - \$12,804).

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2015

8. DEBT LIMITS

The *Municipal Government Act* requires that debt and debt limits as defined by Alberta Regulation 76/2000 for the Commission be disclosed as follows:

	<u>2015</u>	<u>2014</u>
Total debt limit	\$ 909,462	\$ 584,558
Total debt	<u>(701,786)</u>	<u>(720,758)</u>
Total debt limit remaining (exceeded)	\$ 207,676	\$ (136,200)
Service on debt limit	\$ 159,156	\$ 102,298
Service on debt	<u>(44,092)</u>	<u>(44,092)</u>
Total service on debt limit remaining	\$ 115,064	\$ 58,206

The debt limit is calculated at 2 times revenue of the Commission (as defined in Alberta Regulation 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limits requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify Commissions that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the stability of the Commission. Rather, the financial statements must be interpreted as a whole. Ministerial Order No. L:019/14 allows the Commission to exceed the regulated debt limits to December 31, 2015.

9. RESTRICTED SURPLUS

The Board has internally restricted funds for future operating and capital purposes. These internally restricted amounts are not available for other purposes without the approval of the Board.

	<u>2015</u>	<u>2014</u>
Operating reserve	\$ 39,359	\$ 20,805
Capital reserve	<u>47,657</u>	<u>49,891</u>
	\$ 87,016	\$ 70,696

10. FINANCIAL INSTRUMENTS

The Commission's financial instruments consist of cash, receivables from other governments, other receivables, accounts payable and accrued liabilities, and long term debt.

The Commission is exposed to credit risk with respect to its receipt of funds from its customers and members. Liquidity risk is the risk that the Commission will encounter difficulty in meeting obligations associated with financial liabilities.

The Commission is exposed to interest rate risk with respect to long term debt. Interest rate risk arises from interest rate fluctuations, the Commission manages exposure through its normal operating and financing activities. The Commission is exposed to interest rate risk primarily through its fixed interest credit facilities.

Unless otherwise noted, the carrying value of the financial instruments approximately fair value.

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2015

11. RELATED PARTY TRANSACTIONS

The Commission's members are the County of St. Paul and the Town of Elk Point.

The participating municipalities are required to fund certain expenditures not covered by the Water for Life program based on their proportionate share as determined in the business plan, which is currently 80% for the Town of Elk Point and 20% for the County of St. Paul.

	2015	2014
Water Sales		
County of St. Paul	\$ 15,773	\$ (1,818)
Town of Elk Point	323,217	216,167
	<hr/>	
	\$ 338,990	\$ 214,349

Expenses include \$17,000 (2014 - \$12,000) for administration contract fees to the Town of Elk Point.

12. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board and management on July 7, 2016.

13. PRIOR PERIOD ADJUSTMENTS

a) In 2014, tangible capital assets of \$420,569 relating to Stage 2, the water plant upgrade were expensed. The water plant is owned by the Town of St. Paul.

b) In 2014, amortization of tangible capital assets of \$176,484 was not recorded. The regional water line was operational in 2014.

c) In 2014, contracted and general services included \$113,567 relating to Stage 2 of the water plant upgrade. The water plant is owned by the Town of St. Paul.

d) In 2013, professional fees of \$33,839 relating to the regional water line were expensed. These expenditures should have been capitalized in 2013.

The effect on the financial statements has been to:

- Increase 2014 receivable from other governments by \$44,586;
- Decrease 2014 tangible capital assets by \$597,053;
- Decrease 2014 excess of revenue over expenses by \$586,306;
- Increase 2014 opening accumulated surplus by \$33,839; and
- Decrease 2014 accumulated surplus by \$552,467.