

**ELK POINT/ST. PAUL
REGIONAL WATER SERVICES COMMISSION**

Financial Statements

For The Year Ended December 31, 2016

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, 2016 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, 2016 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.



Edmonton, Alberta
April 4, 2017

Hawkings Epp Dumont LLP
Chartered Accountants

EDMONTON

10476 Mayfield Road
Edmonton, AB T5P 4P4
1.877.489.9606
T: 780.489.9606
F: 780.484.9689

LLOYDMINSTER

5102 – 48 Street
PO Box 10099
Lloydminster, AB T9V 3A2
T: 780.875.7433
F: 780.875.5304

WHITECOURT

4927 – 51 Avenue
PO Box 328
Whitecourt, AB T7S 1N5
T: 780.778.3091
F: 780.778.3072

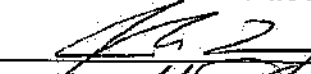

HAWKINGS.COM



ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	2016	2015
FINANCIAL ASSETS		
Cash	\$ 136,064	\$ 459,515
Receivable from other governments (Note 2)	137,350	391,579
Other receivables (Note 3)	6,324	-
Investments	11	11
	<u>279,749</u>	<u>851,105</u>
LIABILITIES		
Accounts payable and accrued liabilities	148,960	261,593
Deferred revenue (Note 5)	-	480,723
Long term debt (Note 6)	682,142	701,786
	<u>831,102</u>	<u>1,444,102</u>
NET DEBT	<u>(551,353)</u>	<u>(592,997)</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	7,604,180	7,781,799
Prepaid expenses	2,438	884
	<u>7,606,618</u>	<u>7,782,683</u>
ACCUMULATED SURPLUS (Schedule 1)	<u>\$ 7,055,265</u>	<u>\$ 7,189,686</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, 2016

	2016 (Budget) (Unaudited)	2016 (Actual)	2015 (Actual)
REVENUE			
Provincial government transfers for operating	\$ -	\$ 1,728,937	\$ 3,640,563
Water sales (Note 10)	9,500	289,815	338,990
Expense recoveries	-	93,234	38,503
Interest income	1,200	2,057	13,429
Local government transfers for operating	358,300	-	62,987
	<u>369,000</u>	<u>2,114,043</u>	<u>4,094,472</u>
EXPENSES			
Transfers to local government	-	1,728,937	3,636,984
Water purchases	270,000	208,856	249,601
Amortization of tangible capital assets	-	177,620	176,484
Contracted services	61,800	55,258	74,769
Material, goods and utilities	31,000	29,345	32,944
Interest on long term debt	24,500	24,448	25,119
Town of Elk Point administration contract	24,000	24,000	17,000
Bad debts	-	-	38,865
	<u>411,300</u>	<u>2,248,464</u>	<u>4,251,766</u>
DEFICIENCY OF REVENUE OVER EXPENSES BEFORE OTHER REVENUE	<u>(42,300)</u>	<u>(134,421)</u>	<u>(157,294)</u>
OTHER REVENUE			
Government transfers for capital	-	-	35,873
DEFICIENCY OF REVENUE OVER EXPENSES	<u>(42,300)</u>	<u>(134,421)</u>	<u>(121,421)</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>7,189,686</u>	<u>7,189,686</u>	<u>7,311,107</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>\$ 7,147,386</u>	<u>\$ 7,055,265</u>	<u>\$ 7,189,686</u>

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
STATEMENT OF CHANGES IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 (Budget) <i>(unaudited)</i>	2016 (Actual)	2015
DEFICIENCY OF REVENUE OVER EXPENSES	\$ (42,300)	\$ (134,421)	\$ (121,421)
Acquisition of tangible capital assets	-	-	(28,448)
Amortization of tangible capital assets	-	177,620	176,484
	(42,300)	43,199	26,615
Acquisition of prepaids	-	(1,555)	(884)
INCREASE (DECREASE) IN NET FINANCIAL ASSETS (DEBT)	(42,300)	41,644	25,731
NET FINANCIAL DEBT - BEGINNING OF YEAR	592,997	(592,997)	(618,728)
NET DEBT - END OF YEAR	\$ 550,697	\$ (551,353)	\$ (592,997)

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	\$ (134,421)	\$ (121,421)
Non-cash item not included:		
Amortization of tangible capital assets	177,620	176,484
	<u>43,199</u>	<u>55,063</u>
Changes in non-cash working capital balances related to operations:		
Receivable from other governments	254,227	(262,897)
Accounts payable and accrued liabilities	(112,636)	210,303
Prepaid expenses	(1,554)	(884)
Deferred revenue	(480,723)	430,044
Other receivables	(6,320)	24,006
	<u>(347,006)</u>	<u>400,572</u>
	<u>(303,807)</u>	<u>455,635</u>
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	-	(28,448)
FINANCING ACTIVITIES		
Repayment of long term debt	(19,644)	(18,973)
INCREASE (DECREASE) IN CASH	(323,451)	408,214
CASH, BEGINNING OF YEAR	459,515	51,301
CASH, END OF YEAR	\$ 136,064	\$ 459,515

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
SCHEDULE OF CHANGES IN ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Schedule 1)

	Equity in Tangible Capital Assets	Restricted Surplus <i>(Note 8)</i>	Unrestricted Surplus	2016	2015
ACCUMULATED SURPLUS (DEFICIT), BEGINNING OF YEAR	\$ 7,080,014	\$ 87,016	\$ 22,656	\$ 7,189,686	\$ 7,311,107
Deficiency of revenues over expenses	-	-	(134,421)	(134,421)	(121,421)
Amortization of tangible capital assets	(177,620)	-	177,620	-	-
Repayment of long term debt	19,644	-	(19,644)	-	-
Transfer to operating reserve	-	26,840	(26,840)	-	-
Transfer from capital reserve	-	43,763	(43,763)	-	-
ACCUMULATED SURPLUS, END OF YEAR	\$ 6,922,038	\$ 157,619	\$ (24,392)	\$ 7,055,265	\$ 7,189,686

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

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION
Schedule of Tangible Capital Assets
For The Year Ended December 31, 2016

(Schedule 2)

	Engineered Structures	Buildings	Machinery & Equipment	2016	2015
COST					
Balance, beginning of the year	\$ 7,063,260	\$ 669,645	\$ 401,862	\$ 8,134,767	\$ 8,106,319
Additions	-	-	-	-	28,448
Balance, end of year	7,063,260	669,645	401,862	8,134,767	8,134,767
ACCUMULATED AMORTIZATION					
Balance, beginning of year	281,392	26,784	44,792	352,968	176,484
Amortization	141,832	13,392	22,395	177,619	176,484
Balance, end of year	423,224	40,176	67,187	530,587	352,968
NET BOOK VALUE	\$ 6,640,036	\$ 629,469	\$ 334,675	\$ 7,604,180	\$ 7,781,799

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2016

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.

1. 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)

ECLK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2016

1. 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, 2016

2. RECEIVABLE FROM OTHER GOVERNMENTS

	<u>2016</u>	<u>2015</u>
Town of St. Paul	\$ 48,624	\$ 357,567
Town of Elk Point	23,369	27,847
County of St. Paul	4,964	6,165
Government grant	60,393	-
	<u>\$ 137,350</u>	<u>\$ 391,579</u>

No allowance for doubtful accounts was required at December 31, 2016 or December 31, 2015.

3. OTHER RECEIVABLES

	<u>2016</u>	<u>2015</u>
Trade accounts receivables	\$ 45,189	\$ 38,865
Allowance for doubtful accounts	(38,865)	(38,865)
	<u>\$ 6,324</u>	<u>\$ -</u>

4. DEMAND LOAN FACILITY

The Commission has established a demand loan facility authorized by Bylaw #6 with a maximum balance of \$270,000 bearing interest at prime. No funds were drawn against this facility at December 31, 2016 or December 31, 2015. The loan is secured by an overdraft protection agreement and shares and deposits in the credit union.

5. 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.

	<u>Balance, Beginning of Year</u>	<u>Funding Received</u>	<u>Funding Used</u>	<u>Balance, End of Year</u>
Water for Life Program	\$ 480,723	\$ -	\$ 480,723	

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2016

6. LONG TERM DEBT

2016 2015

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.

\$ 682,142 \$ 701,786

Principal repayment terms are approximately:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2021	22,375	21,717	44,092
Thereafter	<u>573,989</u>	<u>197,619</u>	<u>771,608</u>
	<u>\$ 682,142</u>	<u>\$ 309,926</u>	<u>\$ 992,068</u>

The current portion of the long term debt amounts is \$20,339 (2015 - \$19,644).

The Commission's total cash payments for interest in 2016 was \$24,448 (2015 - \$25,119).

ELK POINT/ST. PAUL REGIONAL WATER SERVICES COMMISSION

Notes to Financial Statements

December 31, 2016

7. 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>2016</u>	<u>2015</u>
Total debt limit	\$ 770,212	\$ 907,818
Total debt	<u>(682,142)</u>	<u>(701,786)</u>
Total debt limit remaining	\$ 88,070	\$ 206,032
Service on debt limit	\$ 134,787	\$ 158,868
Service on debt	<u>(44,092)</u>	<u>(44,092)</u>
Total service on debt limit remaining	\$ 90,695	\$ 114,776

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.

8. 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>2016</u>	<u>2015</u>
Operating reserve	\$ 66,199	\$ 39,358
Capital reserve	<u>91,420</u>	<u>47,658</u>
	\$ 157,619	\$ 87,016

9. 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 which 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, 2016

10. RELATED PARTY TRANSACTIONS

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

The members 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. Total capital expenditures funded by the members in 2016 total \$135,722.

	2016	2015
Water Sales		
County of St. Paul	\$ 809	\$ 15,773
Town of Elk Point	289,006	323,217
	<hr/>	<hr/>
	\$ 289,815	\$ 338,990

Expenses include \$24,000 (2015 - \$17,000) for administration contract fees to the Town of Elk Point.

11. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board and management on April 4, 2017.