

TWIGG & COMPANY
CHARTERED ACCOUNTANTS

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DUNDURN AND AREA WASTE WATER UTILITY

AUDITED FINANCIAL STATEMENTS

for the year ended December 31, 2015



TWIGG & COMPANY

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Independent Auditors' Report

To the Board of Directors of Dundurn and Area Waste Water Utility

We have audited the accompanying financial statements of Dundurn and Area Waste Water Utility, which comprise the statement of financial position as at December 31, 2015 and the statements of operations and comprehensive income, changes in equity, 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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, these financial statements present fairly, in all material respects, the financial position of Dundurn and Area Waste Water Utility as at December 31, 2015 and the results of its operations and cash flows for year ended December 31, 2015 in accordance with International Financial Reporting Standards.

Saskatoon, Saskatchewan
March 24, 2016

Twigg & Company
Chartered Accountants



DUNDURN AND AREA WASTE WATER UTILITY

STATEMENT OF FINANCIAL POSITION

as at December 31, 2015

With comparative information for 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT:		
Cash and equivalents	\$ 52,880	\$ 1,003
Accounts receivable (Note 6)	20,608	46,717
Prepaid expenses	<u>9,098</u>	<u>6,830</u>
	82,586	54,550
PROPERTY AND EQUIPMENT (Note 7)	<u>7,963,607</u>	<u>8,208,254</u>
	<u>\$ 8,046,193</u>	<u>\$ 8,262,804</u>

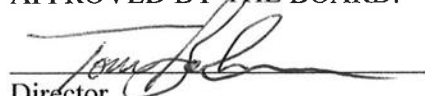
LIABILITIES

CURRENT:		
Short-term debt	\$ -	\$ 10,000
Accounts payable	<u>22,233</u>	<u>27,277</u>
	22,233	37,277
DEFERRED REVENUE (Note 8)	<u>8,061,847</u>	<u>8,306,493</u>
	<u>8,084,080</u>	<u>8,343,770</u>

EQUITY

DEFICIT	(111,429)	(80,966)
TANGIBLE CAPITAL ASSET RESERVE	<u>73,542</u>	<u>-</u>
	<u>(37,887)</u>	<u>(80,966)</u>
	<u>\$ 8,046,193</u>	<u>\$ 8,262,804</u>

APPROVED BY THE BOARD:


Director


Director

DUNDURN AND AREA WASTE WATER UTILITY

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

for the year ended December 31, 2015

With comparative information for 2014

	<u>2015</u>	<u>2014</u>
REVENUE:		
Service charges	\$ 128,038	\$ 120,240
Tangible capital asset reserve income	73,542	-
Tipping fees	5,100	3,400
Other	800	1,070
Amortization of deferred revenue	<u>244,647</u>	<u>259,161</u>
	<u>452,127</u>	<u>383,871</u>
 EXPENSES:		
Annual meeting expense	53	34
Board expenses	3,281	3,399
Contracted services	50,355	58,140
Depreciation of property and equipment	244,647	244,649
Impairment of long-lived asset	-	14,512
Insurance	9,106	9,106
Interest	139	1,458
Maintenance and utilities	56,772	65,364
Memberships and licenses	100	100
Office	120	58
Professional fees	40,995	5,880
Rent	600	600
Utilities	2,780	2,581
Wages and benefits	<u>100</u>	<u>118</u>
	<u>409,048</u>	<u>405,999</u>
 NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	 <u>\$ 43,079</u>	 <u>\$ (22,128)</u>

DUNDURN AND AREA WASTE WATER UTILITY

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2015
With comparative information for 2014

	Deficit	Tangible capital asset reserve	2015	2014
Balance, beginning of year	(80,966)	-	(80,966)	(58,838)
Net income and comprehensive income for the year	43,079	-	43,079	(22,128)
Transfers to tangible capital asset reserve (Note 12)	(73,542)	73,542	-	-
Balance, end of year	(111,429)	73,542	(37,887)	(80,966)

DUNDURN AND AREA WASTE WATER UTILITY

STATEMENT OF CASH FLOWS
for the year ended December 31, 2015
With comparative information for 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss) for the year	\$ 43,079	\$(22,128)
Items not involving cash:		
Amortization of deferred revenue	(244,647)	(259,161)
Impairment of long-lived asset	-	14,512
Depreciation of property and equipment	<u>244,647</u>	<u>244,649</u>
	<u>43,079</u>	<u>(22,128)</u>
 Change in non-cash working capital balances related to operations -		
Accounts receivable	26,110	(37,735)
Prepaid expenses	(2,268)	-
Accounts payable	(5,044)	12,880
Deferred revenue	<u>-</u>	<u>67,584</u>
 Total from operating activities	<u>61,877</u>	<u>20,601</u>
 FINANCING ACTIVITIES		
Short-term debt	(10,000)	(20,000)
 Total from financing activities	(10,000)	(20,000)
 INVESTING ACTIVITIES		
Purchase of property and equipment	(-)	(-)
 Total from investing activities	(-)	(-)
 INCREASE IN CASH POSITION DURING YEAR	51,877	601
 CASH AND EQUIVALENT, BEGINNING OF YEAR	<u>1,003</u>	<u>402</u>
 CASH AND EQUIVALENT, END OF YEAR	\$ <u>52,880</u>	\$ <u>1,003</u>
 CASH AND EQUIVALENT CONSISTS OF		
Cash	\$ <u>52,880</u>	\$ <u>1,003</u>
 SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	139	1,458
Income taxes paid (recovered)	<u>NIL</u>	<u>NIL</u>

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2015

1. THE UTILITY

The Dundurn and Area Waste Water Utility ("the Utility") is a Public Utility Board incorporated under Section 33 of *The Municipalities Act, 2006*, of the Province of Saskatchewan, by joint agreement of:

Town of Dundurn
R.M. of Dundurn, #314
Resort Village of Thode
Resort Village of Shields

2. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on March 24, 2016.

b) Basis of presentation

The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 5*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Measurement basis

These financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policy set out in *Note 9*. The Company's presentation and functional currency is Canadian dollars.

b) Revenue recognition and deferred revenue

The Utility records service charge revenue in the period in which the related service has been provided to the extent that it is probable that the economic benefits will flow to the Utility and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes.

Deferred revenue consists of funds received from subscribers used to finance the construction of the waste water pipeline system as well as government funding received to offset the costs of construction. The deferred revenue is recognized in income on a systematic basis as amortization of deferred revenue over the periods, and in the proportions, in which depreciation on the waste water pipeline assets is charged.

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Impairment of non-financial assets

The Utility reviews the recoverability of non-financial assets subject to amortization whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The asset's recoverable amount is the higher of its fair value less cost to sell and its value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Value in use is determined using discounted estimated future cash flows of the relevant asset. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are cash-generating units. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

d) Cash and equivalents

Cash and cash equivalents consist of cash or highly liquid investments which are readily convertible into cash and subject to an insignificant risk of change in value. Interest from cash is recorded on an accrual basis. The Utility has designated cash as fair value through profit and loss. All gains are recognized in income in the period in which they arise.

e) Property and equipment

Property and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated using the straight-line method over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the asset. Major components of property and equipment are depreciated separately over their respective useful lives. Land is not depreciated. Depreciation has been calculated as follows:

Buildings	Straight-line over 25 years
Equipment	Straight-line over 25 years
Waste water pipeline system infrastructure	Straight-line over 50 years

f) Government assistance

The Utility became eligible for grants under the Building Canada Fund by constructing a waste water pipeline system. The grant funding is recognized in income on a systematic basis as amortization of deferred revenue over the periods, and in the proportions, in which depreciation on waste water pipeline assets is charged.

g) Income tax

The Utility is exempt from Canadian federal and provincial taxes under the provisions of *The Income Tax Act*.

h) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. At each financial position reporting date presented the Utility has not incurred any decommissioning costs related to its constructed waste water pipeline accordingly no provision has been recorded for such site reclamation or abandonment.

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS for the year ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities.

4. NEW ACCOUNTING STANDARDS ADOPTED AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 Financial Instruments

IFRS 9 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Management has not yet determined the potential impact that the adoption of IFRS 9 will have on the Company's financial statements.

IFRS 15, Revenue Recognition

IFRS 15, Revenue Recognition: provides for a single, comprehensive revenue recognition model for all contracts with customers. It contains a single principles based five step approach that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management has not yet considered the potential impact of the adoption of IFRS 15.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Utility makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effects of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk to cause material adjustment to the carrying amounts of assets and liabilities recognized in these financial statements within the next financial year are discussed below:

Useful lives of property and equipment

Management reviews the useful lives of depreciable assets at the end of every reporting period. As at December 31, 2015, management has considered that the useful lives reflect the estimated remaining period that the property and equipment are expected to be used by the Utility. The carrying value of the property and equipment is presented in *Note 7*.

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2015

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Government grants and deferred revenue

Management reviews the government grants and deferred revenue at fiscal year-end. As at December 31, 2015, management has determined that a portion of the government assistance and deferred revenue received has been earned and can be recognized in income as amortization of deferred revenue. The carrying value of the deferred revenue is presented in *Note 8*.

6. ACCOUNTS RECEIVABLE

	2015	2014
Service charges	-	5,655
GST receivable	3,577	1,252
Capital contributions receivable	16,091	38,446
Other	940	1,364
	\$ 20,608	\$ 46,717

7. PROPERTY AND EQUIPMENT

			2015	2014
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Waste water pipeline system infrastructure	\$5,652,058	\$ 452,167	\$5,199,891	\$5,312,932
Buildings	162,185	25,950	\$136,235	142,723
Equipment	3,127,953	500,472	2,627,481	2,752,599
	\$ 8,942,196	\$ 978,589	\$7,963,607	\$8,208,254

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2015

8. DEFERRED REVENUE

	2015	2014
Building Canada Fund Grant	5,946,844	5,946,844
Rural Municipality of Dundurn, #314	214,256	214,256
Skyview Estates	100,362	100,362
Skyview Country Estates	456,066	456,066
Midnight Sun Estates	114,562	114,562
Hillcrest Colony	50,000	50,000
Other developments	30,087	30,087
Resort Village of Shields North	440,080	440,080
Resort Village of Shields South	583,442	583,442
Resort Village of Thode	581,114	581,114
Town of Dundurn	538,739	538,739
Less: Accumulated amortization of deferred revenue	(993,705)	(749,059)
	\$8,061,847	\$8,306,493

9. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

Financial instruments recognized at fair value on the statements of financial position must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy levels are as follows:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on inputs that are other than Level 1 quoted prices that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: Valuation techniques with unobservable market inputs (involves assumptions and estimates by management).

As at December 31, 2015, the classification of the financial instruments, as well as their carrying values and fair values, with comparative figures for December 31, 2014 are shown in the table below:

Classification	December 31, 2015		December 31, 2014	
	Fair value	Carrying value	Fair value	Carrying value
<i>Financial assets</i>				
Cash and equivalents	52,880	52,880	1,003	1,003
Accounts receivable (1)	17,031	17,031	45,465	45,465
<i>Financial liabilities</i>				
Accounts payable and accrued liabilities	22,233	22,233	27,277	27,277

(1) Excluding taxes receivable

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS for the year ended December 31, 2015

9. FINANCIAL INSTRUMENTS (continued)

The fair values of the Utility's financial instruments measured at December 31, 2015, constitute Level 1 measurements for its cash and equivalents within the fair value hierarchy.

Credit risk

Credit risk is the risk of financial loss to the Utility if a customer or counterparty to a financial instrument fails to meet its obligations. The Utility's maximum exposure to credit risk as at December 31, 2015 under its financial instruments is summarized as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Accounts and other receivables -		
Currently due	17,031	45,465
Past due by 90 days or less, not impaired	-	-
Past due by greater than 90 days, not impaired	-	-
	<u>17,031</u>	<u>45,465</u>
Cash and equivalents	52,880	1,003
	<u>69,911</u>	<u>46,468</u>

All of the Utility's cash and cash equivalents are held with major financial institutions in Canada, and management believes the exposure to credit risk with such institutions is not significant. The Utility considers the risk of material loss to be significantly mitigated due to the financial strength of the major financial institutions where cash and term deposits are held. As at December 31, 2015, no material provision has been recorded in respect of impaired receivables. The Utility's maximum exposure to credit risk as at December 31, 2015, is the carrying value of its financial assets.

Liquidity risk

Liquidity risk is that the Utility will encounter difficulty in meeting obligations associated with financial liabilities. The Utility enters into transactions to purchase goods and services on credit and lease office equipment and office space from creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Utility's future net cash flows for the possibility of a negative net cash flow. The Utility manages liquidity risk resulting from accounts payable and accrued liabilities by investing in liquid assets such as cash and short-term investments which can be readily available to repay accounts payable and accrued liabilities.

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS for the year ended December 31, 2015

9. FINANCIAL INSTRUMENTS (continued)

The Utility's financial liabilities are comprised of its accounts payable and accrued liabilities and amounts due to related parties, the contractual maturities of which at December 31, 2015, are summarized as follows:

	December 31, 2015	December 31, 2014
Accounts payable and accrued liabilities with contractual maturities -		
Within 90 days or less	22,233	27,277
In later than 90 days, not later than one year	-	-
Due to related parties with contractual maturities -		
Within 90 days or less	-	-
In later than 90 days, not later than a year	-	-

Market risk

The significant market risks to which the Utility is exposed include interest rate risk and foreign exchange risk.

- Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Utility is not exposed to significant interest rate risk.

- Currency risk

The Utility has no significant exposure at December 31, 2015 to currency risk as all cash and cash equivalents are held in Canadian funds.

10. RELATED PARTY TRANSACTIONS

Key management personnel include the board of directors and the administrator. Key management personnel compensation comprised:

Key management compensation

	Year ended December 31,	
	2015	2014
Retainers, wages and benefits	\$ 9,000	\$ 9,000
Honorariums and travel	3,184	3,261

DUNDURN AND AREA WASTE WATER UTILITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2015

10. RELATED PARTY TRANSACTIONS (continued)

During the year the Utility incurred charges from directors or companies sharing common directors as follows:

Services and reimbursement of expenses	Year ended December 31,	
	2015	2014
Arndt Consulting Inc. (a)	9,000	9,000
Honorariums and travel	3,184	3,261

(a) Key management personnel compensation. Arndt Consulting Inc. is a private company controlled by the Administrator.

These transactions occurred during the normal course of operations and were measured at the exchange amount that is the amount established and accepted by the parties.

11. CAPITAL MANAGEMENT

The Utility has no formal capital management policy however the Board of Directors conducts an annual budgeting and strategic planning meeting. The Utility has no externally imposed capital requirements.

12. TRANSFERS TO THE TANGIBLE CAPITAL ASSET RESERVE

During the current year the Utility made the following transfers to the tangible capital asset reserve:

	2015	2014
Tangible capital asset reserve income	\$ 73,542	\$ -
	\$ 73,542	\$ -