

Improvement District No. 4

Financial Statements

December 31, 2016

IMPROVEMENT DISTRICT NO. 4
FINANCIAL STATEMENTS
DECEMBER 31, 2016

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Independent Auditor's Report

To the Minister of Municipal Affairs and the Advisory Council for Improvement District No. 4

Report on the Financial Statements

I have audited the accompanying financial statements of Improvement District No. 4, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, change in net financial assets (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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 auditor's 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Improvement District No. 4 as at December 31, 2016, and the results of its operations, its change from net debt to net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Merwan N. Saher FCPA, FCA

Auditor General

May 19, 2017

Edmonton, Alberta

IMPROVEMENT DISTRICT NO. 4
STATEMENT OF FINANCIAL POSITION
As at December 31, 2016

	<u>2016</u>	<u>2015</u>
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	\$ 850,772	\$ 727,783
Taxes receivable (Note 4)	8,250	14,096
Accounts receivable (Note 5)	211,834	20,274
Investment (Note 6)	10	10
	1,070,866	762,163
LIABILITIES		
Accounts payable and accrued liabilities	20,157	23,013
Accrued interest payable	722	1,090
Deferred revenue (Note 7)	282,485	368,322
Debenture payable (Note 8)	334,555	500,000
	637,919	892,425
NET FINANCIAL ASSETS (DEBT)	432,947	(130,262)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 9)	360,568	473,812
Prepaid expenses	746	565
	361,314	474,377
ACCUMULATED SURPLUS (Note 10)	\$ 794,261	\$ 344,115

The accompanying notes are part of these financial statements.

IMPROVEMENT DISTRICT NO. 4
STATEMENT OF OPERATIONS
For the year ended December 31, 2016

	2016		2015
	Budget (Unaudited) (Note 15)	Actual	Actual
REVENUE			
Taxation:			
Real property	\$ 692,552	\$ 692,552	\$ 651,062
Power and pipeline	7,296	7,296	7,124
Federal grants in place of taxes	171,027	171,027	167,401
	870,875	870,875	825,587
Payment of requisitions:			
Alberta School Foundation Fund	(427,186)	(427,186)	(399,859)
General municipal	443,689	443,689	425,728
Government transfers for operating	473,305	559,666	19,768
Penalties	7,800	19,773	6,627
Bank interest	4,000	6,059	3,840
Other	300	35	100
Total Revenue	929,094	1,029,222	456,063
EXPENSES			
Administration	62,500	50,172	53,430
Contracted and general services	-	643	630
Recreation and cultural services	576,098	364,298	788,000
Assessment fees	10,200	10,027	9,526
Honoraria	42,000	35,550	41,800
Insurance	1,000	749	443
Interest on debenture	3,372	3,004	1,785
Water, sewage and garbage	750	1,389	990
Bad debt	-	-	3,359
Amortization (Note 9)	-	113,244	113,244
Total Expenses (Note 11)	695,920	579,076	1,013,207
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	233,174	450,146	(557,144)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	344,115	344,115	901,259
ACCUMULATED SURPLUS, END OF YEAR	\$ 577,289	\$ 794,261	\$ 344,115

The accompanying notes are part of these financial statements.

IMPROVEMENT DISTRICT NO. 4
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (DEBT)
For the year ended December 31, 2016

	<u>2016</u>		<u>2015</u>
	<u>Budget</u> (Unaudited) (Note 15)	<u>Actual</u>	<u>Actual</u>
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ 233,174	\$ 450,146	\$(557,144)
Acquisition of tangible capital assets		-	(8,000)
Amortization of tangible capital assets		113,244	113,244
		<u>113,244</u>	<u>105,244</u>
Acquisition of prepaid expenses		(746)	(565)
Use of prepaid expenses		565	372
		<u>(181)</u>	<u>(193)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS (DEBT)		563,209	(452,093)
NET (DEBT) FINANCIAL ASSETS, BEGINNING OF YEAR		(130,262)	321,831
NET FINANCIAL ASSETS (DEBT), END OF YEAR		<u>\$ 432,947</u>	<u>\$(130,262)</u>

The accompanying notes are part of these financial statements.

IMPROVEMENT DISTRICT NO. 4
STATEMENT OF CASH FLOWS
For the year ended December 31, 2016

	<u>2016</u>	<u>2015</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenues over expenses	\$ 450,146	\$ (557,144)
Non-cash items included in excess of revenues over expenses:		
Amortization	113,244	113,244
	563,390	(443,900)
Non-cash charges to operations (net change):		
Decrease (increase) in taxes receivable	5,846	(1,282)
(Increase) decrease in accounts receivable	(191,560)	134,070
(Increase) in prepaid expenses	(181)	(193)
(Decrease) in accounts payable, accrued liabilities and accrued interest payable	(3,224)	(36,580)
(Decrease) increase in deferred revenue	(85,837)	257,061
Cash provided by (used in) operating transactions	288,434	(90,824)
FINANCING		
Issuance of debenture	-	500,000
Principal repayment of debenture	(165,445)	(110,208)
Cash (applied to) provided by financing transactions	(165,445)	389,792
CAPITAL		
Acquisition of tangible capital assets	-	(8,000)
Cash applied to capital transactions	-	(8,000)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		
	122,989	290,968
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	727,783	436,815
CASH AND CASH EQUIVALENTS, END OF YEAR		
	\$ 850,772	\$ 727,783

The accompanying notes are part of these financial statements.

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 1 Authority

Improvement District No. 4 (the Improvement District) is administered by the Ministry of Municipal Affairs (Alberta Municipal Affairs) and operates under the authority of the *Municipal Government Act* Chapter M-26, Revised Statutes of Alberta 2000.

Note 2 Significant Accounting Policies

These financial statements reflect the financial position, results of operations, net financial assets (debt) and cash flows of Improvement District No. 4 as at and for the year ended December 31, 2016 and have been prepared in accordance with Canadian Public Sector Accounting Standards.

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and reported amounts of revenue and expense during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

Tangible Capital Assets

Tangible capital assets are recorded at cost, net of disposals, write-downs and amortization. Tangible capital assets having an original cost greater than \$2,500 are shown on the statement of financial position at net book value.

Tangible capital assets are amortized on a straight-line basis over the estimated useful life of the asset as follows:

Land improvements	10 years
Software	3 years

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 2 Significant Accounting Policies (continued)

Revenue Recognition

Taxation revenue is recorded at the time the tax billings are issued. Taxation billings are subject to appeal.

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future or as a result of a direct financial return. These transfers, including ones which result in capitalized assets, are recognized in the financial statements as revenue when the transfer is authorized, and any eligibility criteria or stipulations have been met. Prior to revenue recognition, any amounts received or receivable along with restricted interest earned are recorded as deferred revenue.

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 normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provided the Change in Net Financial Assets (Debt) for the year.

Valuation of Financial Assets and Liabilities

Cash and cash equivalents, taxes and accounts receivable, accounts payable and accrued liabilities, accrued interest payable and debentures are measured at cost which approximates fair value due to their short term nature.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term securities with a maximum term to maturity of three years. As at December 31, 2016, securities held by the fund had a rate of return of 0.89% per annum (December 31, 2015 - 0.93% per annum).

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 4 Taxes Receivable

	2016			2015
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Taxes receivable	\$ 8,250	\$ -	\$ 8,250	\$ 14,096

Note 5 Accounts Receivable

	2016			2015
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Grants receivable	\$ 211,800	\$ -	\$ 211,800	\$ 19,768
Other receivable	34	-	34	506
	\$ 211,834	\$ -	\$ 211,834	\$ 20,274

All grants listed above are receivable from related parties - see Note 12.

Note 6 Investment

The investment consists of one Class B share at a par value of \$10 in the Alberta Capital Finance Authority ("ACFA"). The share entitles the Improvement District to vote in the selection of one director to the Corporation's Board.

ACFA is authorized to issue 1,000 Class B shares at a par value of \$10 only to municipalities (defined as including municipal districts, counties, improvement districts and special areas) and to approved hospitals, hospital districts and regional health authorities.

ACFA is a provincial corporation and acts only as an agent of the Alberta crown. It assists municipal jurisdictions within the province to obtain capital funds at the lowest possible cost through access to capital markets which would not be available to them on an independent basis.

Portfolio investments not quoted in an active market are recorded and measured at cost.

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 7 Deferred Revenue

	<u>2016</u>	<u>2015</u>
Alberta Community Partnership Grant	\$ 211,800	\$ -
Municipal Sustainability Initiative - Capital Grant	54,400	267,918
Federal Gas Tax Fund	16,285	100,404
	<u>\$ 282,485</u>	<u>\$ 368,322</u>

All grants listed above were received from related parties - see note 12.

Note 8 Debenture payable

On September 15, 2015, the Improvement District issued a debenture to the Alberta Capital Finance Authority in the amount of \$500,000. Payments are due semi-annually with the final payment due September 15, 2018. The interest rate is 0.735%. Interest paid during the year totalled \$3,372 (2015 - \$0).

	<u>2016</u>	<u>2015</u>
Debenture, 0.735%, due September 15, 2018	<u>\$ 334,555</u>	<u>\$ 500,000</u>

Principal and interest payments are as follows:

	Principal	Interest	Total
2017	166,664	2,153	168,817
2018	167,891	926	168,817
	<u>\$ 334,555</u>	<u>\$ 3,079</u>	<u>\$ 337,634</u>

Section 276(2) of the *Municipal Government Act* requires that debt and debt limits as defined by *Alberta Regulation 255/2000* be disclosed as follows:

	<u>2016</u>	<u>2015</u>
Total debt limit	\$ 1,543,833	\$ 684,095
Total debt	(334,555)	(500,000)
Debt limit in excess of actual debt	<u>\$ 1,209,278</u>	<u>\$ 184,095</u>
Service on debt limit	\$ 257,306	\$ 114,016
Service on debt	(168,817)	(168,817)
Service on debt limit exceeded by actual debt service costs	<u>\$ 88,489</u>	<u>\$ (54,801)</u>

The debt limit, as defined by the Regulation, is 1.5 times revenue of the Improvement District. The debt service limit is 0.25 times this same revenue amount. Ministerial Order MSL:093/15 allows Improvement District No. 4 to exceed its debt service limits.

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 9 Tangible Capital Assets

	<u>2016</u>			<u>2015</u>
	<u>Software</u>	<u>Land Improvements</u>	<u>Total</u>	<u>Total</u>
Estimated Useful Life	3 years	10 years		
<u>Historical Cost</u>				
Beginning of Year	\$ 105,000	\$ 1,032,440	\$ 1,137,440	\$ 1,129,440
Additions	-	-	-	8,000
	<u>105,000</u>	<u>1,032,440</u>	<u>1,137,440</u>	<u>1,137,440</u>
<u>Accumulated Amortization</u>				
Beginning of Year	85,000	578,628	663,628	550,384
Amortization expense	10,000	103,244	113,244	113,244
	<u>95,000</u>	<u>681,872</u>	<u>776,872</u>	<u>663,628</u>
Net book value at December 31, 2016	<u>\$ 10,000</u>	<u>\$ 350,568</u>	<u>\$ 360,568</u>	
Net book value at December 31, 2015	<u>\$ 20,000</u>	<u>\$ 453,812</u>		<u>\$ 473,812</u>

Note 10 Accumulated Surplus

	<u>2016</u>	<u>2015</u>
Unrestricted accumulated surplus (deficit)	\$ 433,693	\$ (129,697)
Equity in tangible capital assets (Note 9)	360,568	473,812
	<u>\$ 794,261</u>	<u>\$ 344,115</u>

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 11 Total Expenses

Total expenses for the year are summarized by object of expense as follows:

	<u>2016</u>	<u>2015</u>
Supplies and services	\$ 101,534	\$ 111,963
Grants	364,298	788,000
Amortization	113,244	113,244
	<u>\$ 579,076</u>	<u>\$ 1,013,207</u>

The Ministry of Municipal Affairs manages the administrative operations of the Improvement District, on behalf of its taxpayers, as a trust fund. This is a regulated trust fund consisting of public money over which the Legislature has no power of appropriation.

Note 12 Related Parties

The Improvement District paid an administration fee of \$14,460 (2015 - \$15,494) and linear assessment costs of \$27 (2015 - \$26) to Alberta Municipal Affairs. The Improvement District has an accounts payable of \$27 (2015 - \$0) to Alberta Municipal Affairs. The Improvement District has an amount receivable of \$211,800 (2015 - \$19,768) from Alberta Municipal Affairs.

Requisitions paid to the Alberta School Foundation Fund are shown separately in the statement of operations.

The Improvement District has deferred revenue of \$54,400 (2015 - \$267,918) from Alberta Municipal Affairs as part of the Municipal Sustainability Initiative. The Improvement District recognized \$425,393 (2015 - \$19,768) in government transfers for operating revenue from this initiative.

The Improvement District has deferred grant revenue of \$16,285 (2015 - \$100,404) from Alberta Municipal Affairs as part of the Federal Gas Tax Fund. The Improvement District recognized \$134,273 (2015 - \$0) in government transfers for operating revenue from this initiative.

The Improvement District has deferred grant revenue of \$211,800 (2015 - \$0) from Alberta Municipal Affairs as part of the Alberta Community Partnership Program.

IMPROVEMENT DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Note 12 Related Parties (continued)

The Improvement District issued a debenture to the Alberta Capital Finance Authority in the amount of \$500,000. The debenture has an interest rate of 0.735% and is due September 15, 2018. During the year, payments of \$168,817 (2015 - \$0) were made of which \$3,372 (2015 - \$0) was interest.

Note 13 Financial Instruments

The Improvement District's financial instruments consist of cash and cash equivalents, taxes and accounts receivable, investments, and accounts payable and accrued liabilities, debentures payable and accrued interest payable. It is management's opinion that the Improvement District is not exposed to significant interest or currency risks arising from these financial instruments.

The Improvement District does not hold equities in an active market nor engage in derivative contracts or foreign currency transactions.

The Improvement District is subject to credit risk with respect to taxes and grants in place of taxes receivables and accounts receivables. Credit risk arises from the possibility that taxpayers and entities to which the Improvement District provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

Note 14 Comparative Figures

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

Note 15 Budget

The budget for the year ended December 31, 2016 was approved by the Minister of Municipal Affairs.

Note 16 Approval of Financial Statements

These financial statements were approved by the Chairman of the Advisory Council for Improvement District No. 4 and the Senior Financial Officer of Alberta Municipal Affairs.