

**QUINTE CONSERVATION AUTHORITY
QUINTE CONSERVATION ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

INDEPENDENT AUDITORS' REPORT

To the Members of the Quinte Conservation Association

Report on the Financial Statements

We have audited the accompanying financial statements of the Quinte Conservation Association of Quinte Conservation Authority, which comprise the statement of financial position as at December 31, 2015, the statements of operations and accumulated surplus, change in net financial liabilities 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 controls as management determines are 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 controls 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 controls. 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 the Quinte Conservation Association as at December 31, 2015 and the results of its operations and cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
May 6, 2016

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION STATEMENT OF FINANCIAL POSITION At December 31, 2015

| | 2015 | 2014 |
|---|--------------------|--------------------|
| | \$ | \$ |
| FINANCIAL ASSETS | | |
| Cash | 4,036 | 2,891 |
| Accounts receivable | 61,909 | 70,568 |
| Funds held in trust (note 6) | 434,627 | 398,048 |
| TOTAL FINANCIAL ASSETS | 500,572 | 471,507 |
| LIABILITIES | | |
| Bank indebtedness (note 3) | 220,000 | 305,000 |
| Accounts payable | 23,629 | 20,933 |
| Due to Quinte Conservation Authority (note 4) | 466,126 | 461,443 |
| Long term debt (note 6) | 2,779,184 | 2,912,121 |
| TOTAL LIABILITIES | 3,488,939 | 3,699,497 |
| NET FINANCIAL LIABILITIES | (2,988,367) | (3,227,990) |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets (note 7) | 4,338,917 | 4,402,689 |
| ACCUMULATED SURPLUS (note 8) | 1,350,550 | 1,174,699 |

The accompanying notes are an integral part of these financial statements

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS For the Year Ended December 31, 2015

| | Actual 2015 \$ | Actual 2014 \$ |
|--|----------------------|----------------------|
| REVENUES | | |
| Hydro generation | 532,210 | 538,982 |
| Investment income | 3,181 | 3,302 |
| TOTAL REVENUES | 535,391 | 542,284 |
| EXPENSES | | |
| Interest on long term debt | 179,090 | 176,399 |
| Maintenance and repairs | 20,867 | 44,397 |
| Amortization | 63,772 | 63,773 |
| Contract wages | 54,559 | 58,086 |
| Professional fees | 29,298 | 14,554 |
| Administration | 8,206 | 10,380 |
| Insurance | 3,748 | 3,748 |
| TOTAL EXPENSES | 359,540 | 371,337 |
| ANNUAL SURPLUS | 175,851 | 170,947 |
| ACCUMULATED SURPLUS - beginning of year | 1,174,699 | 1,003,752 |
| ACCUMULATED SURPLUS - end of year | 1,350,550 | 1,174,699 |

The accompanying notes are an integral part of these financial statements

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION STATEMENT OF CHANGE IN NET FINANCIAL LIABILITIES For the Year Ended December 31, 2015

| | Actual 2015 \$ | Actual 2014 \$ |
|--|----------------------|----------------------|
| ANNUAL SURPLUS | 175,851 | 170,947 |
| Amortization of tangible capital assets | 63,772 | 63,773 |
| DECREASE IN NET FINANCIAL LIABILITIES | 239,623 | 234,720 |
| NET FINANCIAL LIABILITIES - beginning of year | (3,227,990) | (3,462,710) |
| NET FINANCIAL LIABILITIES - end of year | (2,988,367) | (3,227,990) |

The accompanying notes are an integral part of these financial statements

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION STATEMENT OF CASH FLOWS For the Year Ended December 31, 2015

| | 2015 | 2014 |
|--|------------------|------------------|
| | \$ | \$ |
| NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES: | | |
| OPERATING | | |
| Annual surplus | 175,851 | 170,947 |
| (Increase)/decrease in accounts receivable | 8,659 | (10,110) |
| Increase in funds held in trust | (36,579) | (82,838) |
| Increase/(decrease) in accounts payable | 2,696 | (15,919) |
| Increase/(decrease) in due to Quinte Conservation Authority | 4,683 | (528) |
| Non-cash charges to operations | | |
| Amortization of tangible capital assets | 63,772 | 63,773 |
| Net increase in cash from operating transactions | 219,082 | 125,325 |
| FINANCING | | |
| Debt principal repayments | (132,937) | (131,097) |
| Increase/(decrease) in bank indebtedness | (85,000) | 5,000 |
| Net decrease in cash from financing transactions | (217,937) | (126,097) |
| INCREASE/(DECREASE) IN CASH | 1,145 | (772) |
| CASH - beginning of year | 2,891 | 3,663 |
| CASH - end of year | 4,036 | 2,891 |

The accompanying notes are an integral part of these financial statements

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION NOTES TO THE FINANCIAL STATEMENTS For the Year Ended December 31, 2015

1. NATURE OF ORGANIZATION

Quinte Conservation Association was incorporated without share capital, on October 13, 1998. During 2009 the Association assumed the construction and operations of the McLeod Dam hydroelectric generating facility. The purpose of the Association is to operate and maintain the McLeod Dam hydroelectricity generation for green energy which is used locally.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the standards in the Chartered Professional Accountants Canada Public Sector Accounting (PSA) Handbook. Significant aspects of the accounting policies adopted by the Association are as follows:

(a) Recognition of Revenue and Expenses

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue in the period in which the transactions of events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

(b) Use of Estimates

Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on the Association's best information and judgment. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. The Association's significant estimates include:

- The amounts recorded for amortization and opening costs of tangible capital assets are based on estimates of useful life, residual values and valuation rates.

(c) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, if any, of tangible capital assets is amortized on a straight-line basis, over the expected useful life of the asset, as follows:

| | |
|----------------|----------|
| Dams and weirs | 75 years |
|----------------|----------|

(d) Non-Financial Assets

Tangible capital assets and other non-financial assets are accounted for as assets by the Association because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the Association unless they are sold.

3. BANK INDEBTEDNESS

The Association has a revolving credit facility agreement with its main financial institution. The amount available at any time is limited to \$1,000,000 via an operating loan. Any balance borrowed will accrue interest at the bank's prime lending rate. The Association authorized the temporary borrowing limit on February 12, 2007. At December 31, 2015 there was a balance outstanding of \$220,000 (2014 - \$305,000).

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION NOTES TO THE FINANCIAL STATEMENTS For the Year Ended December 31, 2015

4. DUE TO RELATED PARTY

Advances received from Quinte Conservation Authority, a related party, were to fund operations. Quinte Conservation Authority is a related party due to common control. The advances are non-interest bearing with no specific terms of repayment.

5. ECONOMIC DEPENDENCE

The major source of revenue is in the form of hydro generation sales to Veridian Connections Inc. The nature and extent of this revenue is of such significance as to affect the viability of the organization and accordingly, it can be said that the organization is economically dependent upon Veridian Connections Inc.

6. LONG TERM DEBT

(a) Long term debt consists of the following:

| | 2015 | 2014 |
|---|-----------|-----------|
| | \$ | \$ |
| Loan from Corpfinance, repayable in blended monthly instalments of \$26,380 with interest at 6.412% (2014 - 5.912%), due November 1, 2028 | 2,779,184 | 2,912,121 |

(b) Interest paid during the year on long term debt amounted to \$179,090 (2014 - \$176,399).

(c) Funds Held In Trust

(i) The funds held in trust of \$434,627 (2014 - \$398,048) reported on the Statement of Financial Position is comprised of the \$320,043 (2014 - \$317,612) debt service reserve fund described in (d) below plus \$114,584 (2014 - \$80,436) maintenance reserve fund.

(d) The loan is secured by a general security agreement over all assets of the McLeod Dam Hydroelectric Generating Facility operating as Quinte Conservation Association. As part of the loan agreement with Corpfinance, the Association is required to provide for a debt service reserve fund account in the amount of \$90,000 plus additional amounts as required by Corpfinance for each year. The loan agreement requires a minimum debt service coverage ratio of 1.30:1 as well as a minimum amount of working capital as defined by agreement. As of December 31, 2015, the Association is not in compliance with the working capital requirement. However, subsequent to the year-end Corpfinance confirmed their intention not to call the loan early and to proceed with the agreed payment schedule reflected in these financial statements.

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION NOTES TO THE FINANCIAL STATEMENTS For the Year Ended December 31, 2015

(e) The long term debt reported in (a) of this note is repayable as follows:

| | Principal \$ | Interest \$ | Total \$ |
|---------------------------|-----------------|----------------|-------------|
| 2016 | 146,317 | 173,825 | 320,142 |
| 2017 | 152,159 | 164,399 | 316,558 |
| 2018 | 162,207 | 154,351 | 316,558 |
| 2019 | 172,919 | 143,639 | 316,558 |
| 2020 | 184,338 | 132,220 | 316,558 |
| 2021 and subsequent years | 1,961,244 | 544,840 | 2,506,084 |
| | 2,779,184 | 1,313,274 | 4,092,458 |

7. TANGIBLE CAPITAL ASSETS

The net book value of the Association's tangible capital assets are:

| | Dams & weirs \$ | Machinery & Equipment \$ | 2015 Totals \$ | 2014 Totals \$ |
|--|-----------------------|-----------------------------------|----------------------|----------------------|
| COST | | | | |
| Balance, beginning of year | 4,723,727 | 59,230 | 4,782,957 | 4,782,957 |
| Balance, end of year | 4,723,727 | 59,230 | 4,782,957 | 4,782,957 |
| ACCUMULATED AMORTIZATION | | | | |
| Balance, beginning of year | 377,898 | 2,370 | 380,268 | 316,495 |
| Add: additions during the year | 62,983 | 789 | 63,772 | 63,773 |
| Balance, end of year | 440,881 | 3,159 | 444,040 | 380,268 |
| NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS | 4,282,846 | 56,071 | 4,338,917 | 4,402,689 |

During the year there were no write-downs of assets (2014 - \$Nil) and no interest capitalized (2014 - \$Nil).

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION NOTES TO THE FINANCIAL STATEMENTS For the Year Ended December 31, 2015

8. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

| | 2015 | 2014 |
|--|-------------|-------------|
| | \$ | \$ |
| Surplus/(Deficit) | | |
| Operating | (209,183) | (315,869) |
| Invested In Capital Assets | | |
| Tangible capital assets - net book value | 4,338,917 | 4,402,689 |
| Long term debt | (2,779,184) | (2,912,121) |
| | 1,559,733 | 1,490,568 |
| | 1,350,550 | 1,174,699 |
