

Environmental Protection and Enhancement Fund

Financial Statements

Year Ended March 31, 2016

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Independent Auditor's Report

To the Minister of Agriculture and Forestry

Report on the Financial Statements

I have audited the accompanying financial statements of the Environmental Protection and Enhancement Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net financial assets 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 the Environmental Protection and Enhancement Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 2, 2016

Edmonton, Alberta

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016

| | 2016 Budget | 2016 Actual (in thousands) | 2015 Actual |
|--|------------------------|---|------------------------|
| Revenues | | | |
| <u>Government Transfers</u> | | | |
| Government of Alberta Grants (Note 9) | \$ 375,000 | \$ 387,390 | \$ 131,584 |
| Timber Rentals and Fees | 32,424 | 29,361 | 39,079 |
| Investment Income | 700 | 403 | 779 |
| | 408,124 | 417,154 | 171,442 |
| Expenses | | | |
| Forest Fires | 387,000 | 399,390 | 143,148 |
| Flat Top Complex | 16,070 | 15,749 | 21,376 |
| Forest Health Program | 500 | 326 | 470 |
| Environment Emergency Response | 4,474 | 1,167 | 6,187 |
| Intercept Feeding and Fencing | 80 | 81 | 43 |
| Debt Servicing Costs | - | 441 | - |
| | 408,124 | 417,154 | 171,224 |
| Annual Surplus | - | - | 218 |
| Accumulated surplus, beginning of year | 150,000 | 150,000 | 149,782 |
| Accumulated surplus, end of year | \$ 150,000 | \$ 150,000 | \$ 150,000 |

The accompanying notes and schedules are part of these financial statements.

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2016

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | (in thousands) | |
| Financial Assets | | |
| Cash and Cash Equivalents (Note 4) | \$ 11,674 | \$ 148,320 |
| Due from Government of Alberta | 298,702 | 13,077 |
| Accounts Receivable | 54 | 1,071 |
| | 310,430 | 162,468 |
| Liabilities | | |
| Accounts Payable and Accrued Liabilities | 7,281 | 8,328 |
| Due to Government of Alberta | 150,441 | - |
| Liability for Contaminated Sites (Note 5) | 2,708 | 4,140 |
| | 160,430 | 12,468 |
| Net Financial Assets | 150,000 | 150,000 |
| Net Assets | | |
| Accumulated Surplus (Note 6) | 150,000 | 150,000 |
| | \$ 150,000 | \$ 150,000 |

Contractual Obligations (Note 7)

The accompanying notes and schedules are part of these financial statements.

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2016

| | 2016 Budget | 2016 Actual | 2015 Actual |
|---|------------------------|------------------------|------------------------|
| | | (in thousands) | |
| Annual Surplus | \$ - | \$ - | \$ 218 |
| Increase in Net Financial Assets in the Year | | - | 218 |
| Net Financial Assets, Beginning of Year | | 150,000 | 149,782 |
| Net Financial Assets, End of Year | | \$ 150,000 | \$ 150,000 |

The accompanying notes and schedules are part of these financial statements.

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

| | 2016 | 2015 |
|---|------------------|-------------------|
| | (in thousands) | |
| Operating Transactions | | |
| Annual Surplus | \$ - | \$ 218 |
| Increase in Accounts Receivable | (284,608) | (13,079) |
| Increase in Accounts Payable and Accrued Liabilities | 149,394 | 4,952 |
| Decrease in Deferred Revenue | - | (23) |
| (Decrease) Increase in Liability for Contaminated Sites | (1,432) | 4,140 |
| Cash Applied to Operating Transactions | (136,646) | (3,792) |
| Decrease in Cash and Cash Equivalents | (136,646) | (3,792) |
| Cash and Cash Equivalents at Beginning of Year | 148,320 | 152,112 |
| Cash and Cash Equivalents at End of Year | \$ 11,674 | \$ 148,320 |

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements for the Year Ended March 31, 2016

Note 1 Authority

The Environmental Protection and Enhancement Fund (the Fund) operates under the authority of the *Environmental Protection and Enhancement Act* (EPEA), Chapter E-12, Revised Statutes of Alberta 2000.

The components of the Fund are:

- Forest Fires
- Flat Top Complex
- Forest Health
- Environmental Emergency Response
- Intercept Feeding and Fencing

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

(a) Reporting Entity

The reporting entity is the Fund, which is part of the Ministry of Agriculture and Forestry and for which the Minister of Agriculture and Forestry is accountable. Other entities reporting to the minister are the Department of Agriculture and Forestry, Agriculture Financial Services Corporation and Alberta Livestock and Meat Agency Ltd. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

(b) Basis of Financial Reporting

Revenue

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Government transfers - Transfers from the Government of Alberta, federal and other government entities are referred to as government transfers.

Government transfers and the associated externally restricted income are recorded as deferred revenue if the eligibility criteria for the use of the transfer, or the stipulations together with the Fund's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the stipulations are met and, when applicable, the Fund complies with its communicated use of the transfer.

All other government transfers, without stipulations for the use of the transfer, are recorded as revenue when the transfer is authorized and the Fund meets the eligibility criteria (if any).

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Grants are recognized as expenses when authorized, eligibility criteria, if any, are met and a reasonable estimate of the amount can be made.

Financial Assets

The Fund has no financial assets measured in the fair value category and has not engaged in Foreign Currency transactions. The Fund has no re-measurement gains or losses and consequently has not presented a statement of re-measurement gains and losses. The Fund's financial assets are measured at cost or amortized cost.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets are limited to financial claims, such as advances to and receivables from other organizations.

Liabilities

Liabilities represent present obligations of the Fund to external organizations and individuals arising from transactions or events occurring before the year end. They are recorded when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liability for Contaminated Sites - Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

- i. an environmental standard exists
- ii. contamination exceeds the environmental standard;
- iii. the Fund is directly responsible or accepts responsibility;
- iv. it is expected that future economic benefits will be given up; and
- v. a reasonable estimate of the amount can be made.

Measurement Uncertainty (in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

Liability for Contaminated Sites, recorded as \$2,708 in these financial statements, are subject to measurement uncertainty.

These estimates are based on the current site assessment, including the source and type of the contaminant. During remediation, further site assessments and/or sampling results may materially change the estimate. These changes could be the result of factors such as expanded area of contamination; a revised assessment of the source or introduction of a new source; re-sampling at deeper depths; and cost fluctuations where remedial work is conducted over several years.

(c) Change in Accounting Policy

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Fund's financial assets and liabilities.

A net financial assets balance indicates the extent of the Fund's government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

Note 3 Future Accounting Changes

In June 2015, the Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

Note 3 Future Accounting Changes (continued)

In June 2015, the Public Sector Accounting Board issued the following accounting standards:

- PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
 PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.
- PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
 PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure on contractual rights. Management is currently assessing the impact of these standards on the financial statements.
- PS 3430 Restructuring Transactions (effective April 1, 2018)**
 This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

Note 4 Cash and Cash Equivalents

The Consolidated Cash Investment Trust Fund 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 and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2016, securities held by the Fund have a time-weighted return of .8% per annum (2015: 1.2% per annum).

Note 5 Liability for Contaminated Sites (in thousands)

The composition of liabilities is as follows:

| | Total | |
|--|-----------------|-----------------|
| | 2016 | 2015 |
| Liabilities at Beginning of Year | \$ 4,140 | \$ - |
| Additions to Liabilities during the Year | - | 4,494 |
| Change in Estimate Related to Existing Sites | (214) | 44 |
| Remediation Work Performed | <u>(1,218)</u> | <u>(398)</u> |
| Liabilities at End of Year | <u>\$ 2,708</u> | <u>\$ 4,140</u> |

The Fund has transferred the liability amount of the contaminated sites for Cold Creek Ranger Station and West Arrowwood to the Department of Environment and Parks.

The Fund has undertaken remediation work on behalf of the proponent at the Gas Plus site for soil and groundwater contamination due to health and environmental risks. The remedial work will be conducted over three years starting in 2014/15, for both onsite and offsite remediation. The liability estimate was based on a consultant's proposal to delineate, develop a contaminated site model, implement testing and remedial action plan. Recovery of compensation equal to the remediation costs will be pursued through the courts. The probability of recovery of all or some of the costs has been assessed as low and therefore, the liability has not been reduced for any potential recoveries.

Note 6 Accumulated Surplus
(in thousands)

Accumulated surplus is comprised of the following:

| | 2016 | 2015 |
|------------------------|-------------------|-------------------|
| Balance April 1, 2015 | \$ 150,000 | \$ 149,782 |
| Annual surplus | - | 218 |
| Balance March 31, 2016 | <u>\$ 150,000</u> | <u>\$ 150,000</u> |

Note 7 Contractual Obligations
(in thousands)

Contractual obligations are obligations of the Fund to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2016 | 2015 |
|-------------------|------------------|------------------|
| Service Contracts | <u>\$ 31,348</u> | <u>\$ 31,971</u> |

Estimated payment requirements for each of the next five years are as follows:

| | 2016 |
|---------|------------------|
| 2016-17 | \$ 14,422 |
| 2017-18 | 5,295 |
| 2018-19 | 5,360 |
| 2019-20 | 3,906 |
| 2020-21 | 2,365 |
| | <u>\$ 31,348</u> |

Note 8 Net Assets
(in thousands)

The net assets for the Fund are capped at \$150,000 in accordance with a Treasury Board decision.

Note 9 Transfer from the Department of Agriculture and Forestry
(in thousands)

The following revenue was received or is receivable from the Department of Agriculture and Forestry:

| | 2016 | 2015 |
|--------------|-------------------|-------------------|
| Forest Fires | <u>\$ 387,390</u> | <u>\$ 131,584</u> |

Note 10 Budget Figures
(in thousands)

The revenue and expense budget amounts disclosed in these financial statements agree with the 2015-16 Government Estimates.

Note 11 Comparative Figures

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

Note 12 Approval of the Financial Statements

The financial statements were approved by the senior financial officer and the deputy minister.

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUNDSCHEDULE TO FINANCIAL STATEMENTSEXPENSES - DETAILED BY OBJECTYEAR ENDED MARCH 31, 2016

| | Budget | 2016 Actual (in thousands) | 2015 Actual |
|---------------------------------------|-------------------|---|------------------------|
| Salaries, Wages and Employee Benefits | \$ 127,581 | \$ 39,191 | \$ 25,386 |
| Supplies and Services | 256,543 | 352,337 | 129,151 |
| Grants | 24,000 | 25,399 | 12,148 |
| Financial Transactions and Other | - | 227 | 4,539 |
| | <u>\$ 408,124</u> | <u>\$ 417,154</u> | <u>\$ 171,224</u> |

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUNDSCHEDULE TO FINANCIAL STATEMENTSRELATED PARTY TRANSACTIONSYEAR ENDED MARCH 31, 2016

(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the Fund.

The Fund had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | Entities in the Ministry | | Other Entities | |
|--|--------------------------|-------------------|-------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 (Restated) |
| Revenues | | | | |
| Grants | \$ 387,390 | \$ 131,584 | \$ - | \$ - |
| | <u>\$ 387,390</u> | <u>\$ 131,584</u> | <u>\$ -</u> | <u>\$ -</u> |
| Expenses | | | | |
| Grants | \$ - | \$ - | \$ - | \$ - |
| Other services | - | - | 3,067 | 2,525 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,067</u> | <u>\$ 2,525</u> |
| Payable to | | | | |
| Environment and Parks | \$ - | \$ 3,578 | \$ 1,249 | \$ - |
| Treasury Board and Finance | - | - | 150,000 | 127 |
| | <u>\$ -</u> | <u>\$ 3,578</u> | <u>\$ 151,249</u> | <u>\$ 127</u> |
| Receivable from | | | | |
| Agriculture and Forestry | \$ 298,702 | \$ 13,077 | \$ - | \$ - |
| Alberta Environmental Monitoring, Evaluation and Reporting Agency | - | - | 1 | - |
| Environment and Parks | - | - | 1,177 | - |
| | <u>\$ 298,702</u> | <u>\$ 13,077</u> | <u>\$ 1,178</u> | <u>\$ -</u> |