

SHEEP RIVER REGIONAL UTILITY CORP.

FINANCIAL STATEMENTS

For the year ended December 31, 2016

SHEEP RIVER REGIONAL UTILITY CORP.
TABLE OF CONTENTS
For the year ended December 31, 2016

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF OPERATIONS	3
STATEMENT OF CHANGE IN NET FINANCIAL DEBT	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 10
SCHEDULES TO THE FINANCIAL STATEMENTS	11 - 12



CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To: The Board of
Sheep River Regional Utility Corp.

We have audited the accompanying financial statements of Sheep River Regional Utility Corp., which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net financial 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian 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 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.

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 Sheep River Regional Utility Corp. as at December 31, 2016 and the results of its operations, changes in its net financial debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Lethbridge, Alberta

April 19, 2018

A handwritten signature in black ink that reads "Avail LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2016

	2016
Financial assets	
Cash	\$ 88,709
Trade and other receivables (note 3)	51,031
	<hr/> 139,740
Liabilities	
Accounts payable and accrued liabilities	164,964
Due to shareholders (note 4)	4,572,935
	<hr/> 4,737,899
Net financial debt	<hr/> (4,598,159)
Non-financial assets	
Prepaid expenses	14,102
Tangible capital assets	9,930,573
	<hr/> 9,944,675
Accumulated surplus (note 5)	<hr/> \$ 5,346,516

Approved on behalf of the board:

Director _____

Director _____

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF OPERATIONS
For the year ended December 31, 2016

2016

Revenue	
Water requisition	\$ 191,129
Interest	376
	<hr/> 191,505
Expenses	
Contracted and general services	87,239
Salaries, wages and benefits	85,339
Materials, goods and utilities	29,858
Bank charges and short-term interest	212
Amortization of tangible capital assets	200,674
	<hr/> 403,322
Deficiency of revenue over expenses before other	<hr/> (211,817)
Other	
Contributed assets	5,558,313
	<hr/> 5,346,496
Excess of revenue over expenses	5,346,496
Issuance of share capital	20
	<hr/> 20
Accumulated surplus, end of year	<hr/> \$ 5,346,516

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF CHANGE IN NET FINANCIAL DEBT
For the year ended December 31, 2016

2016

Excess of revenue over expenses	\$ 5,346,496
Acquisition of tangible capital assets	(4,572,934)
Amortization of tangible capital assets	200,674
Contributed assets	(5,558,313)
	(9,930,573)
Net change in prepaid expenses	(14,102)
Issuance of share capital	20
	(14,082)
Change in net financial debt	(4,598,159)
Net financial debt, beginning of year	-
Net financial debt, end of year	\$ (4,598,159)

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2016

	2016
Operating transactions	
Excess of revenue over expenses	\$ 5,346,496
Adjustments for items which do not affect cash	
Amortization of tangible capital assets	200,674
Contributed assets	(5,558,313)
	(11,143)
Net change in non-cash working capital items	
Trade and other receivables	(51,031)
Prepaid expenses	(14,102)
Accounts payable and accrued liabilities	164,964
	88,688
Capital transactions	
Acquisition of tangible capital assets	(4,572,934)
Financing transactions	
Issuance of share capital	20
Advances from shareholders	4,572,935
	4,572,955
Increase in cash	88,709
Cash, beginning of year	-
Cash, end of year	\$ 88,709

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

1. Nature of operations

Sheep River Regional Utility Corp. (the "company") was incorporated under the Business Corporations Act of Alberta on June 30, 2013 and commenced operations in September 2016. It operates under a Ministerial Order pursuant to sections 73 and 250 of the Municipal Governments Act of Alberta. The company was incorporated for the purpose of operating the supply, treatment and transmission of drinking water to the respective municipalities.

The shareholders of the company are the Town of Turner Valley, the Town of Black Diamond, the Municipal District of Foothills No. 31 and the Village of Longview.

The company is exempt from income taxation under Section 149 of the Canada Income Tax Act.

2. Significant accounting policies

The financial statements are prepared in accordance with Canadian public sector accounting standards and reflect the assets, liabilities, revenues and expenses, and change in the financial position of the company. Significant aspects of the accounting policies adopted by the company are as follows:

(a) Revenue recognition

Variable and fixed water revenues are recognized as revenue in the period in which the service is delivered or in which the transactions or events occurred that gave rise to the revenue.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the 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.

(c) 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, provides the Change in Net Financial Debt for the year.

(i) 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, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

2. Significant accounting policies, continued

	Years
Buildings	13-48
Engineering structures	38-73
Equipment	10

Full annual amortization is charged in the year of acquisition and none in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

- (ii) Contributions of tangible capital assets
Tangible capital assets received as contributions are recorded at fair value at the date of receipt and also are recorded as revenue.

3. Trade and other receivables

	2016
Trade receivables	\$ 50,697
GST receivable	334
	<u>\$ 51,031</u>

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

4. Due to shareholders

	2016
Town of Turner Valley	\$ 2,057,821
Town of Black Diamond	2,057,821
Municipal District of Foothills No. 31	457,293
	\$ 4,572,935

The amounts due to shareholders are non-interest bearing, and must be repaid to the three shareholders proportionately. There are no scheduled repayments. The amounts are secured by a General Security Agreement covering all present and after acquired property of the company and a land mortgage over the company's assets.

5. Accumulated surplus

Accumulated surplus consists of internally restricted and unrestricted amounts, equity in tangible capital assets, and share capital as follows:

	2016
Unrestricted deficit	\$ (45,994)
Internally restricted surplus (reserves) (note 6)	34,852
Equity in tangible capital assets (note 7)	5,357,638
Share capital (note 8)	20
	\$ 5,346,516

6. Reserves

	2016
Capital expenditures	\$ 34,852

7. Equity in tangible capital assets

	2016
Tangible capital assets	\$ 10,131,247
Accumulated amortization	(200,674)
Due to shareholders	(4,572,935)
	\$ 5,357,638

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

8. Share capital

Authorized

Unlimited Class A Common Voting Shares
Unlimited Class B Common Voting Shares
Unlimited Class C Common Voting Shares
Unlimited Class D Common Non-Voting Shares
Unlimited Class E Common Non-Voting Shares
Unlimited Class F Common Non-Voting Shares
Unlimited Class G Preferred Non-Voting Shares
Unlimited Class H Preferred Non-Voting Shares
Unlimited Class I Preferred Non-Voting Shares

Issued

		2016
45 Class A - Town of Turner Valley	\$	4.50
45 Class A - Town of Black Diamond		4.50
10 Class A - Municipal District of Foothills		1.00
100 Class B - Village of Longview		10.00
	\$	20.00

9. Related party transactions

The M.D. of Foothills No. 31, the Town of Turner Valley, the Town of Black Diamond and the Village of Longview are shareholders of the company and, as such, have been identified as related parties.

Water requisitions are based on the budgeted net operating costs of the company and are allocated among the shareholders based on actual service utilization during the year. Water requisitions charged to shareholders are as follows:

		2016
Town of Black Diamond	\$	122,203
Town of Turner Valley		64,942
M.D. of Foothills No. 31		3,984
	\$	191,129

During the year, the company received contributed assets in the amount of \$5,558,313 from Town of Black Diamond.

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

9. Related party transactions

Expenses charged by the shareholders are as follows:

	2016
Town of Turner Valley	\$ 179,649
M.D. of Foothills No. 31	26,194
	<u>\$ 205,843</u>

	2016
Trade and other receivables include amounts receivable from:	
Town of Black Diamond	\$ 27,822
Town of Turner Valley	22,875
	<u>\$ 50,697</u>

Accounts payable and accrued liabilities include amounts payable to:	
Town of Turner Valley	\$ 154,259
M.D. of Foothills No. 31	10,500
	<u>\$ 164,759</u>

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

10. Economic dependence

Substantially all of the revenues derived by the company are from shareholders. As a result, the company is economically dependent on its shareholders in order to generate operating profits, cash flow from operations and for the continued viability of the business.

11. Financial instruments

The company's financial instruments consist of trade and other receivables and accounts payable and accrued liabilities. It is management's opinion that the company is not exposed to significant interest or currency risks arising from these financial instruments.

The carrying value of these financial instruments approximates their fair value.

12. Approval of financial statements

These financial statements were approved by Board and Management.

SHEEP RIVER REGIONAL UTILITY CORP.
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Schedule of tangible capital assets	Schedule 1				
	Land	Buildings	Engineered structures	Machinery and equipment	2016
Cost:					
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisitions	386,841	1,053,089	8,464,251	227,066	10,131,247
Balance, end of year	386,841	1,053,089	8,464,251	227,066	10,131,247
Accumulated amortization:					
Balance, beginning of year	-	-	-	-	-
Annual amortization	-	30,128	147,839	22,707	200,674
Balance, end of year	-	30,128	147,839	22,707	200,674
Net book value	\$ 386,841	\$ 1,022,961	\$ 8,316,412	\$ 204,359	\$ 9,930,573

SHEEP RIVER REGIONAL UTILITY CORP.
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2016

Schedule of changes in accumulated surplus

Schedule 2

	Unrestricted	Internally restricted (reserves)	Equity in tangible capital assets	Share capital	2016
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Excess of revenue over expenses	5,346,496	-	-	-	5,346,496
Current year funds used for tangible capital assets	(4,572,934)	-	4,572,934	-	-
Annual amortization expense	200,674	-	(200,674)	-	-
Share capital issued	-	-	-	20	20
Transfer to reserves from operating	(34,852)	34,852	-	-	-
Contributed tangible capital assets	(5,558,313)	-	5,558,313	-	-
Advances from shareholder	4,572,935	-	(4,572,935)	-	-
Change in accumulated surplus (deficit)	(45,994)	34,852	5,357,638	20	5,346,516
Balance, end of year	\$ (45,994)	\$ 34,852	\$ 5,357,638	\$ 20	\$ 5,346,516