

SHEEP RIVER REGIONAL UTILITY CORP.

FINANCIAL STATEMENTS

For the year ended December 31, 2018

SHEEP RIVER REGIONAL UTILITY CORP.
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INDEPENDENT AUDITOR'S REPORT

To: The Board of
Sheep River Regional Utility Corp.

Opinion

We have audited the financial statements of the Sheep River Regional Utility Corp. which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net financial debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2018, its results of operations, change in net financial debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

INDEPENDENT AUDITOR'S REPORT, continued

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Lethbridge, Alberta

April 18, 2019



Chartered Professional Accountants

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2018

	2018	2017
Financial assets		
Cash	\$ 307,877	\$ 200,757
Trade and other receivables (note 3)	73,956	88,637
	<u>381,833</u>	<u>289,394</u>
Liabilities		
Accounts payable and accrued liabilities	175,214	203,237
Due to shareholders (note 4)	4,572,935	4,572,935
	<u>4,748,149</u>	<u>4,776,172</u>
Net financial debt	<u>(4,366,316)</u>	<u>(4,486,778)</u>
Non-financial assets		
Prepaid expenses	10,339	9,431
Tangible capital assets	9,557,385	9,729,899
	<u>9,567,724</u>	<u>9,739,330</u>
Accumulated surplus (note 5)	<u>\$ 5,201,408</u>	<u>\$ 5,252,552</u>

Approved on behalf of the board:

Director _____

Director _____

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF OPERATIONS
For the year ended December 31, 2018

	Budget (unaudited)	2018	2017
Revenue			
Water requisition	\$ 700,360	\$ 707,837	\$ 682,245
Interest	-	2,222	938
	700,360	710,059	683,183
Expenses			
Contracted and general services	261,450	250,797	218,215
Salaries, wages and benefits	243,803	206,218	273,385
Materials, goods and utilities	90,550	103,498	84,607
Bank charges and short-term interest	-	16	266
Amortization of tangible capital assets	104,557	200,674	200,674
	700,360	761,203	777,147
Deficiency of revenue over expenses	-	(51,144)	(93,964)
Accumulated surplus, beginning of year	5,252,552	5,252,552	5,346,516
Accumulated surplus, end of year	\$ 5,252,552	\$ 5,201,408	\$ 5,252,552

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF CHANGE IN NET FINANCIAL DEBT
For the year ended December 31, 2018

	Budget (unaudited)	2018	2017
Deficiency of revenue over expenses	\$ -	\$ (51,144)	\$ (93,964)
Acquisition of tangible capital assets	-	(28,159)	-
Amortization of tangible capital assets	104,557	200,674	200,674
	104,557	172,515	200,674
Net change in prepaid expenses	-	(909)	4,671
Change in net financial debt	104,557	120,462	111,381
Net financial debt, beginning of year	(4,486,778)	(4,486,778)	(4,598,159)
Net financial debt, end of year	\$ (4,382,221)	\$ (4,366,316)	\$ (4,486,778)

SHEEP RIVER REGIONAL UTILITY CORP.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2018

	2018	2017
Operating transactions		
Deficiency of revenue over expenses	\$ (51,144)	\$ (93,964)
Adjustments for items which do not affect cash		
Amortization of tangible capital assets	200,674	200,674
	149,530	106,710
Net change in non-cash working capital items		
Trade and other receivables	14,681	(37,606)
Prepaid expenses	(908)	4,671
Accounts payable and accrued liabilities	(28,024)	38,273
	135,279	112,048
Capital transactions		
Acquisition of tangible capital assets	(28,159)	-
	107,120	112,048
Increase in cash	107,120	112,048
Cash, beginning of year	200,757	88,709
Cash, end of year	\$ 307,877	\$ 200,757

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

1. Nature of operations

Sheep River Regional Utility Corp. (the "company") was incorporated under the Business Corporations Act of Alberta on June 30, 2013. 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, Foothills County, 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) Budget amounts

The budget amounts presented on the statement of operations are taken from the company's annual budget. Certain budget amounts have been reclassified to conform with the current year's financial statement presentation.

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

2. Significant accounting policies

(d) 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:

	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.

3. Trade and other receivables

	2018	2017
Trade receivables	\$ 64,093	\$ 64,566
GST receivable	9,863	24,071
	\$ 73,956	\$ 88,637

4. Due to shareholders

	2018	2017
Town of Turner Valley	\$ 2,057,821	\$ 2,057,821
Town of Black Diamond	2,057,821	2,057,821
Foothills County	457,293	457,293
	\$ 4,572,935	\$ 4,572,935

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

4. Due to shareholders, continued

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:

	2018	2017
Unrestricted deficit	\$ (19,228)	\$ (36,041)
Internally restricted surplus (reserves) (note 6)	236,166	131,609
Equity in tangible capital assets (note 7)	4,984,450	5,156,964
Share capital (note 8)	20	20
	<u>\$ 5,201,408</u>	<u>\$ 5,252,552</u>

6. Reserves

	2018	2017
Capital expenditures	\$ 236,166	\$ 131,609

7. Equity in tangible capital assets

	2018	2017
Tangible capital assets	\$ 10,159,406	\$ 10,131,247
Accumulated amortization	(602,021)	(401,348)
Due to shareholders	(4,572,935)	(4,572,935)
	<u>\$ 4,984,450</u>	<u>\$ 5,156,964</u>

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

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

	2018	2017
45 Class A - Town of Turner Valley	\$ 4.50	\$ 4.50
45 Class A - Town of Black Diamond	4.50	4.50
10 Class A - Foothills County	1.00	1.00
100 Class B - Village of Longview	10.00	10.00
	\$ 20.00	\$ 20.00

9. Related party transactions

Foothills County, 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:

	2018	2017
Town of Black Diamond	\$ 408,199	\$ 420,716
Town of Turner Valley	283,914	246,505
Foothills County	15,724	15,024
	\$ 707,837	\$ 682,245

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

9. Related party transactions, continued

Expenses charged by the shareholders are as follows:

	2018	2017
Town of Turner Valley	\$ 420,961	\$ 569,825
Foothills County	77,130	18,000
Town of Black Diamond	-	169
	\$ 498,091	\$ 587,994

	2018	2017
Trade and other receivables include amounts receivable from:		
Town of Black Diamond	\$ 37,029	\$ 26,016
Town of Turner Valley	26,768	38,390
	\$ 63,797	\$ 64,406

Accounts payable and accrued liabilities include amounts payable to:		
Town of Turner Valley	\$ 23,602	\$ 203,188
Foothills County	59,042	50
	\$ 82,644	\$ 203,238

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. Comparative figures

Where necessary the comparative figures for the 2017 year have been reclassified to conform with 2018 financial statement presentation.

SHEEP RIVER REGIONAL UTILITY CORP.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

13. 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, 2018

Schedule of tangible capital assets

Schedule 1

	Land	Buildings	Engineered structures	Machinery and equipment	2018	2017
Cost:						
Balance, beginning of year	\$ 386,841	\$ 1,053,089	\$ 8,464,251	\$ 227,066	\$ 10,131,247	\$ 10,131,247
Acquisitions	-	-	-	28,159	28,159	-
Balance, end of year	386,841	1,053,089	8,464,251	255,225	10,159,406	10,131,247
Accumulated amortization:						
Balance, beginning of year	-	60,256	295,679	45,413	401,348	200,674
Annual amortization	-	30,127	147,839	22,707	200,673	200,674
Balance, end of year	-	90,383	443,518	68,120	602,021	401,348
Net book value	\$ 386,841	\$ 962,706	\$ 8,020,733	\$ 187,105	\$ 9,557,385	\$ 9,729,899
2017 net book value	\$ 386,841	\$ 992,833	\$ 8,168,572	\$ 181,653	\$ 9,729,899	

SHEEP RIVER REGIONAL UTILITY CORP.
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2018

Schedule of changes in accumulated surplus

	Schedule 2	
	2018	2017
	Share capital	
	Equity in tangible capital assets	
	Internally restricted	
	Unrestricted	
Balance, beginning of year	131,609	5,346,516
Deficiency of revenue over expenses	(36,021)	5,252,552
Annual amortization expense	(51,144)	(51,144)
Transfer to reserves from operating	200,673	-
Purchase of capital assets	(104,557)	-
	(28,159)	-
Change in accumulated surplus	16,813	(51,144)
	(172,514)	(93,964)
Balance, end of year	\$ 236,166	\$ 5,252,552
	\$ (19,228)	\$ (51,144)
	\$ 4,984,450	\$ 5,201,408
	\$ 20	\$ 20
	\$ 4,984,450	\$ 5,252,552