

SHEEP RIVER REGIONAL UTILITY CORPORATION

FINANCIAL STATEMENTS

For the year ended December 31, 2022

SHEEP RIVER REGIONAL UTILITY CORPORATION

TABLE OF CONTENTS

For the year ended December 31, 2022

INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF OPERATIONS	4
STATEMENT OF CHANGE IN NET FINANCIAL DEBT	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 12
SCHEDULES TO THE FINANCIAL STATEMENTS	13 - 14



INDEPENDENT AUDITOR'S REPORT

To: The Board of
Sheep River Regional Utility Corporation

Opinion

We have audited the financial statements of the Sheep River Regional Utility Corporation which comprise the statement of financial position as at December 31, 2022, 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, 2022, 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 20, 2023



Chartered Professional Accountants

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2022

	2022	2021
Financial assets		
Cash	\$ 457,803	\$ 386,708
Trade and other receivables (note 3)	235,378	100,708
	693,181	487,416
Liabilities		
Accounts payable and accrued liabilities	94,006	77,487
Due to shareholders (note 4)	4,572,935	4,572,935
	4,666,941	4,650,422
Net financial debt	(3,973,760)	(4,163,006)
Non-financial assets		
Prepaid expenses	14,086	14,458
Tangible capital assets (schedule 1)	8,905,517	9,043,408
	8,919,603	9,057,866
Accumulated surplus (note 5, schedule 2)	\$ 4,945,843	\$ 4,894,860

Approved on behalf of the board:

Director _____

Director _____

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF OPERATIONS
For the year ended December 31, 2022

	Budget (unaudited)	2022	2021
Revenue			
Water requisition	\$ 792,200	\$ 792,191	\$ 774,805
Interest and other	294,000	94,277	317,394
	1,086,200	886,468	1,092,199
Expenses			
Contracted and general services	344,800	247,226	604,294
Salaries, wages and benefits	200,000	204,197	233,838
Materials, goods and utilities	140,600	159,622	137,345
Bank charges and short-term interest	250	293	121
Amortization of tangible capital assets	213,100	224,147	215,521
	898,750	835,485	1,191,119
Excess (deficiency) of revenue over expenses	187,450	50,983	(98,920)
Accumulated surplus, beginning of year	4,894,860	4,894,860	4,993,780
Accumulated surplus, end of year	\$ 5,082,310	\$ 4,945,843	\$ 4,894,860

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL DEBT
For the year ended December 31, 2022

	Budget (unaudited)	2022	2021
Excess (deficiency) of revenue over expenses	\$ 187,450	\$ 50,983	\$ (98,920)
Acquisition of tangible capital assets	(294,000)	(86,256)	(24,429)
Amortization of tangible capital assets	213,100	224,147	215,521
	(80,900)	137,891	191,092
Net change in prepaid expenses	-	372	(17)
Change in net financial debt	106,550	189,246	92,155
Net financial debt, beginning of year	(4,163,006)	(4,163,006)	(4,255,161)
Net financial debt, end of year	\$ (4,056,456)	\$ (3,973,760)	\$ (4,163,006)

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2022

	2022	2021
Operating transactions		
Excess (deficiency) of revenue over expenses	\$ 50,983	\$ (98,920)
Adjustments for items which do not affect cash		
Amortization of tangible capital assets	224,147	215,521
	275,130	116,601
Net change in non-cash working capital items		
Trade and other receivables	(134,670)	50,904
Prepaid expenses	372	(17)
Accounts payable and accrued liabilities	16,519	(8,073)
Cash provided by operating transactions	157,351	159,415
Capital transactions		
Acquisition of tangible capital assets	(86,256)	(24,429)
Increase in cash	71,095	134,986
Cash, beginning of year	386,708	251,722
Cash, end of year	\$ 457,803	\$ 386,708

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

1. Nature of operations

Sheep River Regional Utility Corporation (the "company") was incorporated under the Business Corporations Act of Alberta on June 30, 2013. It operates under a Ministerial Order pursuant to section 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) Valuation of financial assets and liabilities

The company's financial assets and financial liabilities are measured as follows:

<u>Financial statement component</u>	<u>Measurement</u>
Cash	Cost and amortized cost
Trade and other receivables	Lower of cost or net recoverable value
Accounts payable and accrued liabilities	Cost
Due to shareholders	Cost

(c) 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.

(d) 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 CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

2. Significant accounting policies, continued

(e) 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

	2022	2021
Trade receivables	\$ 225,479	\$ 86,493
GST receivable	9,899	14,215
	\$ 235,378	\$ 100,708

4. Due to shareholders

	2022	2021
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

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.

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

5. Accumulated surplus

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

	2022	2021
Unrestricted surplus	\$ 43,575	\$ 4,701
Internally restricted surplus (reserves) (note 6)	569,666	419,666
Equity in tangible capital assets (note 7)	4,332,582	4,470,473
Share capital (note 8)	20	20
	\$ 4,945,843	\$ 4,894,860

6. Reserves

	2022	2021
Capital expenditures	\$ 569,666	\$ 419,666

7. Equity in tangible capital assets

	2022	2021
Tangible capital assets	\$ 10,365,982	\$ 10,279,726
Accumulated amortization	(1,460,465)	(1,236,318)
Due to shareholders	(4,572,935)	(4,572,935)
	\$ 4,332,582	\$ 4,470,473

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

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

		2022		2021
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

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

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. Capital requisitions are based on current year's capital acquisitions. Water and capital requisitions charged to shareholders are as follows:

	2022	2021
Town of Black Diamond	\$ 495,008	\$ 578,903
Town of Turner Valley	352,778	458,361
Foothills County	30,663	54,835
	\$ 878,449	\$ 1,092,099

	2022	2021
Expenses charged by the shareholders are as follows:		
Town of Turner Valley	\$ 106,506	\$ 375,347
Foothills County	286,059	291,733
	\$ 392,565	\$ 667,080

Trade and other receivables include amounts receivable from:		
Town of Black Diamond	\$ 118,208	\$ 46,657
Town of Turner Valley	93,468	35,529
Foothills County	12,258	4,308
	\$ 223,934	\$ 86,494

Accounts payable and accrued liabilities include amounts payable to:		
Town of Turner Valley	\$ 19,363	\$ 27,492
Foothills County	70,877	24,095
	\$ 90,240	\$ 51,587

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.

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

10. Budget amounts

The 2022 budget was approved by the company and has been reported in the financial statements for information purposes only. The budget amounts have not been audited, reviewed, or otherwise verified.

Budgeted surplus per financial statements	\$ 187,450
Less: Capital expenditures	(294,000)
Transfers to reserves	(106,550)
Add: Amortization	213,100
<hr/>	
<u>Equals: budgeted surplus</u>	<u>\$ -</u>

11. 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 cash flow and for the continued viability of the business.

12. 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.

13. Approval of financial statements

These financial statements were approved by Board and Management.

SHEEP RIVER REGIONAL UTILITY CORPORATION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

Schedule of tangible capital assets	Schedule 1					
	Land	Buildings	Engineered structures	Machinery and equipment	2022	2021
Cost:						
Balance, beginning of year	\$ 386,841	\$ 1,053,089	\$ 8,464,252	\$ 375,544	\$ 10,279,726	\$ 10,255,297
Acquisitions	-	-	-	86,256	86,256	24,429
Balance, end of year	386,841	1,053,089	8,464,252	461,800	10,365,982	10,279,726
Accumulated amortization:						
Balance, beginning of year	-	180,768	887,036	168,514	1,236,318	1,020,797
Annual amortization	-	30,127	147,839	46,181	224,147	215,521
Balance, end of year	-	210,895	1,034,875	214,695	1,460,465	1,236,318
Net book value	\$ 386,841	\$ 842,194	\$ 7,429,377	\$ 247,105	\$ 8,905,517	\$ 9,043,408
2021 net book value	\$ 386,841	\$ 872,321	\$ 7,577,216	\$ 207,030	\$ 9,043,408	

SHEEP RIVER REGIONAL UTILITY CORPORATION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2022

Schedule of changes in accumulated surplus

Schedule 2

	Unrestricted	Internally restricted	Equity in tangible capital assets	Share capital	2022	2021
Balance, beginning of year	\$ 4,701	\$ 419,666	\$ 4,470,473	20 \$	4,894,860	\$ 4,993,780
Deficiency of revenue over expenses	50,983	-	-	-	50,983	(98,920)
Annual amortization expense	224,147	-	(224,147)	-	-	-
Transfer to reserves from operating	(150,000)	150,000	-	-	-	-
Purchase of capital assets	(86,256)	-	86,256	-	-	-
Change in accumulated surplus	38,874	150,000	(137,891)	-	50,983	(98,920)
Balance, end of year	\$ 43,575	\$ 569,666	\$ 4,332,582	20 \$	4,945,843	\$ 4,894,860