

**SHEEP RIVER REGIONAL UTILITY CORPORATION**

**FINANCIAL STATEMENTS**

**For the year ended December 31, 2021**

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# SHEEP RIVER REGIONAL UTILITY CORPORATION

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For the year ended December 31, 2021

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## 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, 2021, 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, 2021, 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

*Avail LLP*

April 21, 2022

Chartered Professional Accountants

**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2021**

	2021	2020
<b>Financial assets</b>		
Cash	\$ 386,708	\$ 251,722
Trade and other receivables (note 3)	100,708	151,612
	487,416	403,334
<b>Liabilities</b>		
Accounts payable and accrued liabilities	77,486	85,561
Due to shareholders (note 4)	4,572,935	4,572,935
	4,650,421	4,658,496
<b>Net financial debt</b>	(4,163,005)	(4,255,162)
<b>Non-financial assets</b>		
Prepaid expenses	14,458	14,441
Tangible capital assets (schedule 1)	9,043,407	9,234,501
	9,057,865	9,248,942
<b>Accumulated surplus (note 5, schedule 2)</b>	\$ 4,894,860	\$ 4,993,780

Approved on behalf of the board:

Director \_\_\_\_\_

Director \_\_\_\_\_

**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**STATEMENT OF OPERATIONS**  
For the year ended December 31, 2021

	Budget (unaudited)	2021	2020
<b>Revenue</b>			
Water requisition	\$ 774,809	\$ 774,805	\$ 722,935
Interest and other	108,200	317,394	74,682
	883,009	1,092,199	797,617
<b>Expenses</b>			
Contracted and general services	291,110	604,294	274,791
Salaries, wages and benefits	250,000	233,838	242,327
Materials, goods and utilities	130,600	137,345	129,864
Bank charges and short-term interest	250	121	339
Amortization of tangible capital assets	205,697	215,521	213,079
	877,657	1,191,119	860,400
<b>Excess (deficiency) of revenue over expenses</b>	5,352	(98,920)	(62,783)
<b>Accumulated surplus, beginning of year</b>	4,993,780	4,993,780	5,056,563
<b>Accumulated surplus, end of year</b>	\$ 4,999,132	\$ 4,894,860	\$ 4,993,780

**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**STATEMENT OF CHANGE IN NET FINANCIAL DEBT**  
**For the year ended December 31, 2021**

	Budget (unaudited)	2021	2020
<b>Excess (deficiency) of revenue over expenses</b>	\$ 5,352	\$ (98,920)	\$ (62,783)
Acquisition of tangible capital assets	(108,000)	(24,429)	(73,820)
Amortization of tangible capital assets	205,697	215,521	213,079
	97,697	191,092	139,259
Net change in prepaid expenses	-	(15)	(1,048)
<b>Change in net financial debt</b>	103,049	92,157	75,428
<b>Net financial debt, beginning of year</b>	(4,255,162)	(4,255,162)	(4,330,590)
<b>Net financial debt, end of year</b>	\$ (4,152,113)	\$ (4,163,005)	\$ (4,255,162)

**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2021

	2021	2020
<b>Operating transactions</b>		
Deficiency of revenue over expenses	\$ (98,920)	\$ (62,783)
Adjustments for items which do not affect cash		
Amortization of tangible capital assets	215,521	213,079
	116,601	150,296
Net change in non-cash working capital items		
Trade and other receivables	50,904	(70,803)
Prepaid expenses	(17)	(1,048)
Accounts payable and accrued liabilities	(8,073)	18,710
	159,415	97,155
<b>Capital transactions</b>		
Acquisition of tangible capital assets	(24,429)	(73,820)
<b>Increase in cash</b>	134,986	23,335
<b>Cash, beginning of year</b>	251,722	228,387
<b>Cash, end of year</b>	\$ 386,708	\$ 251,722



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**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2021**

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**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, 2021

**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**

	2021	2020
Trade receivables	\$ 86,493	\$ 141,889
GST receivable	14,215	9,723
	\$ 100,708	\$ 151,612

**4. Due to shareholders**

	2021	2020
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, 2021

**5. Accumulated surplus**

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

	2021	2020
Unrestricted surplus	\$ 4,702	\$ 2,528
Internally restricted surplus (reserves) (note 6)	419,666	329,666
Equity in tangible capital assets (note 7)	4,470,472	4,661,566
Share capital (note 8)	20	20
	<b>\$ 4,894,860</b>	<b>\$ 4,993,780</b>

**6. Reserves**

	2021	2020
Capital expenditures	\$ 419,666	\$ 329,666

**7. Equity in tangible capital assets**

	2021	2020
Tangible capital assets	\$ 10,279,725	\$ 10,255,298
Accumulated amortization	(1,236,318)	(1,020,797)
Due to shareholders	(4,572,935)	(4,572,935)
	<b>\$ 4,470,472</b>	<b>\$ 4,661,566</b>

**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2021

**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

		2021		2020
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, 2021

**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. Legal fees paid during the year to cover shortfall on DRP funding were charged back to the shareholders. Water, capital requisitions, and legal fees charged to shareholders are as follows:

	2021	2020
Town of Black Diamond	\$ 578,903	\$ 450,226
Town of Turner Valley	458,361	314,899
Foothills County	54,835	31,629
	<u>\$ 1,092,099</u>	<u>\$ 796,754</u>

Expenses charged by the shareholders are as follows:

	2021	2020
Town of Turner Valley	\$ 375,347	\$ 94,096
Foothills County	291,733	309,050
	<u>\$ 667,080</u>	<u>\$ 403,146</u>

	2021	2020
Trade and other receivables include amounts receivable from:		
Town of Black Diamond	\$ 46,657	\$ 72,542
Town of Turner Valley	35,529	59,504
Foothills County	4,308	9,843
	<u>\$ 86,494</u>	<u>\$ 141,889</u>

	2021	2020
Accounts payable and accrued liabilities include amounts payable to:		
Town of Turner Valley	\$ 27,492	\$ 24,498
Foothills County	24,095	25,740
	<u>\$ 51,587</u>	<u>\$ 50,238</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.

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**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2021

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**10. Budget amounts**

The 2021 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	\$	5,352
Less: Capital expenditures		(108,000)
Transfers to reserves		(102,849)
Add: Amortization		205,697
<hr/>		
<u>Equals: budgeted surplus</u>	<u>\$</u>	<u>200</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.

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**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2021**

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**13. COVID-19**

Events have occurred as a result of the COVID-19 (coronavirus) pandemic that have caused economic uncertainty. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government responses, remain unclear at this time.

Some of the key impacts include, but are not limited to, interruptions of production and supply chains, unavailability of personnel, reductions in revenue, decline in value of financial investments, disruptions or stoppages in non-essential travel, and the closure of facilities and businesses.

The company's revenues and expenses have remained comparable from the beginning of the pandemic to year end. Subsequent to year end, revenues have continued to be consistent and are expected to remain consistent in the year pending economic conditions. The company is following government guidelines and has developed policies to ensure the safety of employees is maintained. Management is not aware of any material impairments that will impact the financial assets or liabilities of the company due to the pandemic.

The situation is continually changing and the future impact on the entity is not readily determinable at this time.

**14. 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, 2021

**Schedule of tangible capital assets**

**Schedule 1**

	Land	Buildings	Engineered structures	Machinery and equipment	2021	2020
<b>Cost:</b>						
Balance, beginning of year	\$ 386,841	\$ 1,053,089	\$ 8,464,251	\$ 351,115	\$ 10,255,296	\$ 10,181,478
Acquisitions	-	-	-	24,429	24,429	73,820
Balance, end of year	386,841	1,053,089	8,464,251	375,544	10,279,725	10,255,298
<b>Accumulated amortization:</b>						
Balance, beginning of year	-	150,639	739,197	130,961	1,020,797	807,718
Annual amortization	-	30,129	147,839	37,553	215,521	213,079
Balance, end of year	-	180,768	887,036	168,514	1,236,318	1,020,797
<b>Net book value</b>	<b>\$ 386,841</b>	<b>\$ 872,321</b>	<b>\$ 7,577,215</b>	<b>\$ 207,030</b>	<b>\$ 9,043,407</b>	<b>\$ 9,234,501</b>
<b>2020 net book value</b>	<b>\$ 386,841</b>	<b>\$ 902,450</b>	<b>\$ 7,725,054</b>	<b>\$ 220,154</b>	<b>\$ 9,234,499</b>	



**SHEEP RIVER REGIONAL UTILITY CORPORATION**  
**SCHEDULES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2021

**Schedule of changes in accumulated surplus**  
**Schedule 2**

	Unrestricted	Internally restricted	Equity in tangible capital assets	Share capital	2021	2020
Balance, beginning of year \$	2,530 \$	329,666 \$	4,661,564 \$	20 \$	4,993,780 \$	5,056,563
Deficiency of revenue over expenses	(98,920)	-	-	-	(98,920)	(62,783)
Annual amortization expense	215,521	-	(215,521)	-	-	-
Transfer to reserves from operating	(90,000)	90,000	-	-	-	-
Purchase of capital assets	(24,429)	-	24,429	-	-	-
Change in accumulated surplus	2,172	90,000	(191,092)	-	(98,920)	(62,783)
<b>Balance, end of year</b> \$	<b>4,702 \$</b>	<b>419,666 \$</b>	<b>4,470,472 \$</b>	<b>20 \$</b>	<b>4,894,860 \$</b>	<b>4,993,780</b>