

SYLVAIN & COMPANY

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

Financial Statements

For the Year Ended December 31, 2019



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

FINANCIAL STATEMENTS

December 31, 2019

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SYLVAIN & COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Members of the board of the SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

Opinion

We have audited the consolidated financial statements of the SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION (the Commission), which comprise the consolidated statement of financial position as at December 31, 2019, and the results of its operations, changes in net financial assets (debt) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION as at December 31, 2019, the results of its operations, change in its net financial assets (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 Consolidated Financial Statements* section of our report. We are independent of the Commission 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 consolidated 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 consolidated 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 Commission'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 cease operations, or has no realistic alternative but to do so.

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

(continues)

Independent Auditor's Report to Members of SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION (continued)

Auditor's Responsibilities for the Audit of the Consolidated 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:

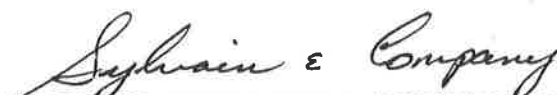
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 Commission'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 Commission'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 Commission 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.

Report on Other Legal and Regulatory Requirements

- Debt Limit Regulation:

In accordance with Alberta Regulation 255/2000, we confirm that the commission is in compliance with the Debt Limit Regulation. A detailed account of the commission's debt limit can be found in Note 7.


CHARTERED PROFESSIONAL ACCOUNTANTS

Falher, AB
March 30, 2020

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

	2019	2018
FINANCIAL ASSETS	\$	\$
Cash in bank (Note 3)	862,683	981,286
Trade and other receivable	12,934	8,496
Due from related parties (Note 10)	80,750	78,839
Investments (Note 4)	231,251	1,844
	1,187,618	1,070,465
 LIABILITIES		
Accounts payable and accruals	17,851	15,691
Employee benefit obligations (Note 6)	25,618	23,632
Due to related parties (Note 10)	-	443
Long-term debt (Note 7)	1,930,073	2,076,184
	1,973,542	2,115,950
 NET FINANCIAL ASSETS (DEBT)	(785,924)	(1,045,485)
 NON-FINANCIAL ASSETS		
Tangible capital assets (Note 5)	13,524,319	13,832,941
Inventory for consumption	13,343	9,127
Prepaid expenses	200	200
	13,537,862	13,842,268
 ACCUMULATED SURPLUS (Note 9)	12,751,938	12,796,783

Contingencies (Note 11)

See accompanying schedules and notes to the financial statements.

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2019

	Budget (Unaudited)	2019 \$	2018 \$
REVENUE			
Service fees charged to related parties (Note 10)	1,081,500	1,032,264	1,076,497
Other service fees and sale of goods	700	-	-
Gain on disposal of capital asset	-	-	-
Government transfers-provincial conditional	-	-	-
Investment income	5,000	25,270	9,904
Other revenues	13,220	19,441	41,267
Total Revenue	1,100,420	1,076,975	1,127,668
EXPENSES			
Salaries, wages and benefits	317,729	312,789	283,434
Contracted and general services	18,000	12,096	16,454
Advertising, print and memberships	500	396	4,689
Professional services	25,000	8,291	8,285
Insurance	24,000	25,317	21,695
Postage, phone & freight	10,000	9,179	9,263
Travel & subsistence	6,500	6,141	5,173
Repairs & maintenance	68,000	35,568	31,920
Rental	1,000	2,040	1,847
Supplies & fuel	25,000	18,930	19,289
Utilities	163,000	150,972	160,609
Chemicals	72,000	68,071	76,708
Bank charges and short-term interest	-	-	-
Interest on long-term debt	102,188	101,325	108,386
Amortization of capital assets	329,171	370,705	369,325
Other - grant receivable write off	-	-	6,112
Total Expenses	1,162,088	1,121,820	1,123,189
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(61,668)	(44,845)	4,479
ACCUMULATED SURPLUS, BEGINNING OF YEAR	12,796,783	12,796,783	12,792,304
ACCUMULATED SURPLUS, END OF YEAR	12,735,115	12,751,938	12,796,783

See accompanying schedules and notes to the financial statements.

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

Statement of Changes in Net Financial Assets (Debt)

As at December 31, 2019

	Budget (Unaudited)	2019	2018
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	(61,668)	\$ (44,845)	\$ 4,479
Acquisition of tangible capital assets	-	(62,083)	(6,116)
Contributed tangible capital assets	-	-	-
Proceeds on disposal of tangible capital assets	-	-	-
Amortization of tangible capital assets	329,171	370,705	369,325
(Gain) loss on sale of tangible capital assets	-	-	-
	329,171	308,622	363,209
Acquisition of supplies inventories	(72,000)	(72,287)	(72,671)
Acquisition of prepaid assets	(36,500)	(46,160)	(40,786)
Use of supplies inventories	72,000	68,071	76,708
Use of prepaid assets	36,500	46,160	41,682
	-	(4,216)	4,933
(INCREASE) DECREASE IN NET DEBT	267,503	259,561	372,621
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	(1,045,485)	(1,045,485)	(1,418,106)
NET FINANCIAL ASSETS (DEBT), END OF YEAR	(777,982)	(785,924)	(1,045,485)

See accompanying schedules and notes to the financial statements.

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

	2019	2018
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (shortfall) of revenues over expenses:	(44,845)	4,479
Non-cash items included in excess (shortfall) above:		
Amortization of tangible capital assets	370,705	369,325
Loss (gain) on disposal of tangible capital assets	-	-
Non-cash charges to operations (net change):		
Decrease (increase) in trade and other receivables	(4,438)	293,171
Decrease (increase) in interest receivable	-	-
Decrease (increase) in due from commission members	(1,911)	9,805
Decrease (increase) in inventory for consumption	(4,216)	4,037
Decrease (increase) in prepaid expenses	-	896
Increase (decrease) in accounts payable and accrued liabilities	2,160	(81,415)
Increase (decrease) in employee benefit obligations	1,986	(785)
Decrease (increase) in deferred revenue	-	-
Decrease (increase) in due to commission members	(443)	282
Cash provided by operating transactions	318,998	599,795
CAPITAL		
Acquisition of tangible capital assets	(62,083)	(6,116)
Sale of tangible capital assets	-	-
Cash provided by (applied to) capital transactions	(62,083)	(6,116)
INVESTING		
Decrease (increase) in restricted cash or cash equivalents	115,549	(228,000)
Decrease (increase) in long-term investments	(229,407)	(223)
Cash provided by (applied to) investing transactions	(113,858)	(228,223)
FINANCING		
Long-term debt issued	-	-
Long-term debt repaid	(146,111)	(139,101)
Cash provided by (applied to) financing transactions	(146,111)	(139,101)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(3,054)	226,355
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	198,865	(27,490)
CASH AND CASH EQUIVALENTS, END OF YEAR	195,811	198,865
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 3)	862,683	981,286
Less: restricted portion of cash and temporary investments (Note 3)	(666,872)	(782,421)
	195,811	198,865

See accompanying schedules and notes to the financial statements.

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

The Smoky River Regional Management Water Commission is constituted under the Alberta Municipal Government Act and was approved by the Minister of Municipal Affairs on May 28, 2003 for the purpose of constructing, maintaining, controlling, and managing a regional water supply line from Smoky River.

The members of the commission are the Town of Falher, the Village of Girouxville, the Town of McLennan the Village of Donnelly and the Municipal District of Smoky River No. 130.

The Commission is exempt from income taxation under Section 149 of the Canadian Income Tax Act.

The financial statements reflect the assets, liabilities, revenues and expenses, and change in financial position of the commission. Significant aspects of the accounting policies adopted by the commission are as follows:

a) Basis of Presentation

These financial statements have been prepared by management in accordance with generally accepted accounting principles recommended for governments by the Public Sector Accounting Board.

b) Budget Amounts

The budget amounts presented on the statement of operations are taken from the commission's annual budget prepared in November 2018. Certain budget amounts have been reclassified to conform with the current year's financial statement presentation.

c) Cash and Temporary Investments

Cash and cash equivalents consist of cash on hand, balances with banks and deposits with an original maturity date of purchase of three months or less. Because of the short term maturity of these investments, their carrying value approximates fair value.

d) Inventories

Inventories of materials and supplies for consumption are valued at the lower of cost or net realizable value with cost determined by the average cost method.

e) Revenue Recognition

Service fees and sales of goods 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.

Government transfers are recognized in the period when the related expenses are incurred, services performed or the tangible capital assets acquired.

f) Tangible Capital Assets

Purchased tangible capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution.

Tangible capital assets are amortized on a straight-line basis over the following periods:

Engineering structures	45 - 75 years
Vehicles	10 years

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES (CON'T)

g) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 expenses during the year. Actual results could differ from those estimates.

2. FINANCIAL INSTRUMENTS

The commission's financial instruments consist of cash, trade and other receivables, amounts due from commission members, accounts payable and accrued liabilities, and long-term debt. It is management's opinion that the commission is not exposed to significant interests or currency risks arising from these financial instruments.

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

3. CASH AND TEMPORARY INVESTMENTS

	2019	2018
	\$	\$
Cash	10	10
Cash in bank - current account	305,427	312,580
- cashable GIC	-	225,000
Temporary investments	557,246	443,696
	862,683	981,286

Temporary investments are short-term deposits with original maturities of three months or less bearing interest at 2.6%.

The board has designated funds of \$666,872 (2018: \$782,421) included in the above amounts for capital asset replacement (Note 9).

4. INVESTMENTS

	2019		2018	
	Cost	Market Value	Cost	Market Value
	\$	\$	\$	\$
Long-term deposit	229,128	229,128	-	-
Equity - Girouxville Co-op	2,123	2,123	1,844	1,844
	231,251	231,251	1,844	1,844

The term deposit (ATB Financial) has an effective interest rate of 2.7% and matures January 9, 2020.

The board has designated funds of \$896,000 (2018: \$782,421) included in the above amounts for capital asset replacement (Note 9). The amount of \$896,000 is funded by the long-term deposit of \$229,128 with the remaining balance of \$666,872 funded by temporary investment (Note 3).

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

5. TANGIBLE CAPITAL ASSETS

			2019	2018
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	50,000	-	50,000	50,000
Engineering structures	19,271,794	5,850,874	13,420,920	13,719,543
Vehicles	99,988	46,589	53,399	63,398
	19,421,782	5,897,463	13,524,319	13,832,941

6. EMPLOYEE BENEFIT OBLIGATIONS

	2019	2018
	\$	\$
Sick pay benefits	6,416	5,222
Vacation and overtime	19,202	18,410
	25,618	23,632

Sick pay benefits

The sick pay benefits liability is comprised of sick pay that accumulates but does not vest and is paid only upon an illness or injury-related absence. The extent to which accumulated sick days are expected to be used by the employees has been considered in measuring this obligation.

Vacation and overtime

The vacation and overtime liability is comprised of the vacation and overtime that employees are deferring to future years. Employees have either earned the benefits (and are vested) or are entitled to these benefits within the next budgetary year.

7. LONG-TERM DEBT

	2019	2018
	\$	\$
Capital debentures	1,924,250	2,064,539
Capital Ford Credit	5,823	11,645
	1,930,073	2,076,184
Less: current portion	126,014	146,112
Long-term portion	1,804,059	1,930,072

Principal and interest repayments are as follows:

	Principal	Interest	Total
	\$	\$	\$
2020	126,014	94,807	220,821
2021	126,283	88,716	214,999
2022	132,682	82,316	214,998
2023	139,406	75,592	214,998
2024	146,471	68,527	214,998
Thereafter	1,259,217	253,713	1,512,930
	1,930,073	663,671	2,593,744

Debenture debt is repayable to Alberta Capital Finance Authority and bears interest at rates ranging from 4.98% to 5.012% per annum and matures in periods 2020, 2031, 2032 and 2034. Debenture debt is issued on the credit and security of the commission at large.

Ford Credit loan bears interest at 0% and is repayable in monthly installments of \$485.21. This debt matures December 21, 2020 and is secured by a 2014 Ford F150 truck.

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

7. LONG-TERM DEBT (CON'T)

Section 3 of Alberta Regulation No. 76/2000 requires that debt and debt limits for the commission be disclosed as follows:

	2019	2018
	\$	\$
Total debt limit	2,153,950	2,255,336
Total debt	1,930,073	2,076,184
Amount of debt limit unused (exceeded)	223,877	179,152
Debt servicing limit	376,941	394,684
Debt servicing	220,821	248,300
Amount of debt servicing limit unused	156,120	146,384

The debt limit is calculated at 2 times revenue of the commission (as defined in the Alberta Regulation No. 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify commissions that could be at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the commission. Rather, the financial statements must be interpreted as a whole.

8. EQUITY IN TANGIBLE CAPITAL ASSETS

	2019	2018
	\$	\$
Tangible capital assets	19,421,782	19,359,699
Accumulated amortization	(5,897,463)	(5,526,758)
Capital long term debt	(1,930,073)	(2,076,184)
Balance at end of year	11,594,246	11,756,757

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

9. ACCUMULATED SURPLUS

	2019	2018
	\$	\$
Unrestricted surplus (deficit)	39,692	35,605
Restricted surplus - Operating		
Restricted surplus - operating reserve	212,000	212,000
Restricted surplus - insurance deductible reserve	10,000	10,000
Restricted surplus - Capital		
Restricted surplus - capital replacement reserve	860,000	758,421
Restricted surplus - vehicle replacement reserve	36,000	24,000
Equity in tangible capital assets (Note 8)	11,594,246	11,756,757
	12,751,938	12,796,783

10. RELATED PARTY TRANSACTIONS

Town of Falher, Town of McLennan, Village of Donnelly, Municipal District of Smoky River No. 130 and the Village of Girouxville are members of the commission and, as such, have been identified as related parties.

The Smoky River Water Co-operative Ltd. has also been identified as a related party. Even though it is not a member of the commission, the Smoky River Water Co-operative does have two representative directors on the commission's twelve member board.

Service fees are based on the budgeted net operating costs of the commission and are allocated among the commission members based on actual service utilization during the year. Service fees charged to commission members and other related parties are as follows:

	2019	2018
	\$	\$
Municipal District of Smoky River No. 130	-	-
Town of Falher	481,776	534,320
Smoky River Water Co-op	248,158	237,786
Town of McLennan	-	-
Village of Donnelly	133,771	137,752
Village of Girouxville	168,559	166,639
	1,032,264	1,076,497

The commission paid \$3,966 (2018 - \$3,965) to Town of Falher for contracted administration services and \$2,040 (2018 - \$1,680) for rent of office space.

SMOKY RIVER REGIONAL WATER MANAGEMENT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

10. RELATED PARTY TRANSACTIONS (CON'T)

Amounts due from related parties are payable on receipt of the invoice and have arisen from the service fees charged during the year. Amounts due from commission members at the end of the year are as follows:

	2019	2018
	\$	\$
Municipal District of Smoky River No. 130	-	-
Smoky River Water Co-op	16,301	15,894
Town of Falher	39,853	39,626
Town of McLennan	-	-
Village of Donnelly	11,448	10,171
Village of Girouxville	13,148	13,148
	80,750	78,839

The Commission also collected \$3,600 (2018 = \$3,600) from the Smoky River Water Co-op for booster station monitoring.

Amounts due to related parties are payable on receipt of the invoice. Amounts due to related parties at the end of the year are as follows:

	2019	2018
	\$	\$
Town of Falher	-	443

11. CONTINGENCIES

The Commission has received a statement of claim which was filed March 30, 2012 in the amount \$115,950.72 plus G.S.T., interest and costs, filed by In-Line Contracting Ltd, a contractor to Smoky River Water Management Commission in respect of the project known as the "Smoky River Water Commission Raw Water Supply Contract 2". In turn, the Commission has counterclaimed for \$1,000,000 for costs associated with correction of deficiencies. At this time, we are unable to make a conclusive determination regarding liability and quantum. No amount payable or receivable has been set up as at December 31, 2019.

12. APPROVAL OF FINANCIAL STATEMENTS

The board of directors and management have approved these financial statements.