

Sault Ste. Marie Region Conservation Authority
Financial Statements
For the year ended December 31, 2017

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Independent Auditor's Report

To the Board of Directors of the Sault Ste. Marie Region Conservation Authority

We have audited the accompanying financial statements of the Sault Ste. Marie Region Conservation Authority, which comprise the statement of financial position as at December 31, 2017 and the statements of operations and accumulated surplus, change in net financial assets 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 generally accepted 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 Sault Ste. Marie Region Conservation Authority as at December 31, 2017 and the results of its operations, change in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Ontario
March 20, 2018

Sault Ste. Marie Region Conservation Authority

Statement of Financial Position

December 31	2017	Restated (see Note 11) 2016
Financial assets		
Cash and cash equivalents (Note 2)	\$ 374,988	\$ 381,048
Accounts receivable	18,833	5,977
	<u>393,821</u>	<u>387,025</u>
Liabilities		
Demand loan (Note 3)	11,667	16,667
Accounts payable and accrued liabilities	20,900	14,599
Deferred revenue (Note 4)	55,434	55,718
Deferred government contributions (Note 5)	67,285	76,246
	<u>155,286</u>	<u>163,230</u>
Net financial assets	<u>238,535</u>	<u>223,795</u>
Non-financial assets		
Tangible capital assets (Schedule 1)	5,632,683	5,963,566
Prepaid expenses	296	3,652
	<u>5,632,979</u>	<u>5,967,218</u>
Accumulated surplus (Note 6)	<u>\$ 5,871,514</u>	<u>\$ 6,191,013</u>

The accompanying notes are an integral part of these financial statements.

Sault Ste. Marie Region Conservation Authority

Statement of Operations and Accumulated Surplus

For the year ended December 31	Budget 2017	2017	Restated (see Note 11) 2016
Revenue			
Government contributions			
Provincial	\$ 251,940	\$ 235,714	\$ 233,754
Municipal - City of Sault Ste. Marie	481,563	481,563	475,065
Municipal - Prince Township	5,284	5,284	5,284
Rental income	-	6,422	7,373
Other	45,263	65,393	52,163
Gain on sale of capital asset	-	4,867	-
	<u>784,050</u>	<u>799,243</u>	<u>773,639</u>
Expenses			
Administrative (Schedule 3)	463,648	383,999	372,040
Conservation land taxes and insurance	15,500	17,851	15,646
Water control (Schedule 3)	250,603	303,236	298,087
Trails and recreation	42,000	43,585	49,621
Other	6,500	32,930	14,349
Amortization of tangible capital assets	341,388	337,141	341,388
	<u>1,119,639</u>	<u>1,118,742</u>	<u>1,091,131</u>
Annual deficit	(335,589)	(319,499)	(317,492)
Accumulated surplus, beginning of year	6,191,013	6,191,013	6,508,505
Accumulated surplus, end of year	<u>\$ 5,855,424</u>	<u>\$ 5,871,514</u>	<u>\$ 6,191,013</u>

The accompanying notes are an integral part of these financial statements.

Sault Ste. Marie Region Conservation Authority
Statement of Changes in Net Financial Assets

	Budget 2017	2017	Restated (see Note 11) 2016
Annual deficit	\$ (335,589)	\$ (319,499)	\$ (317,492)
Amortization of tangible capital assets	341,388	337,141	341,388
(Increase) decrease in prepaid expenses	-	3,356	(2,589)
Acquisition of tangible capital assets	-	(6,258)	-
Gain on disposal of tangible capital assets	-	(4,867)	-
Proceeds on sale of tangible capital assets	-	4,867	-
Increase (decrease) in net financial assets	5,799	14,740	21,307
Net financial assets, beginning of year	223,795	223,795	202,488
Net financial assets, end of year	\$ 229,594	\$ 238,535	\$ 223,795

The accompanying notes are an integral part of these financial statements.

Sault Ste. Marie Region Conservation Authority

Statement of Cash Flows

For the year ended December 31	2017	2016
Operating transactions		
Annual deficit	\$ (319,499)	\$ (317,492)
Items not involving cash		
Gain on disposal of tangible capital assets	(4,867)	-
Amortization of tangible capital assets	337,141	341,388
	12,775	23,896
Changes in non-cash working capital balances		
Accounts receivable	(12,856)	21,161
Prepaid expenses	3,356	(2,589)
Accounts payable and accrued liabilities	6,301	1,603
Deferred revenue	(284)	32
Deferred government contributions	(8,961)	(76,766)
	331	(32,663)
Capital transactions		
Acquisition of tangible capital assets	(6,258)	-
Proceeds on sale of tangible capital assets	4,867	-
	(1,391)	-
Cash flows from financing activities		
Principal payments on demand loan	(5,000)	(4,583)
Decrease in cash and cash equivalents	(6,060)	(37,246)
Cash and cash equivalents, beginning of year	381,048	418,294
Cash and cash equivalents, end of year	\$ 374,988	\$ 381,048

The accompanying notes are an integral part of these financial statements.

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2017

1. Significant accounting policies

a) Nature of operations

The Conservation Authority was established in 1963 by an Order in Council and operates under the Conservation Authorities Act of Ontario. Pursuant to the Conservation Authorities Act, the objectives of an authority are to establish and undertake, in the area over which it has jurisdiction, a program designed to further the conservation, restoration, development and management of natural resources other than gas, oil, coal and minerals. The Sault Ste. Marie Region Conservation Authority in particular was established to address flooding concerns within the watershed.

b) Basis of accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards, as recommended by the Public Sector Accounting Board.

c) 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, if any, of tangible capital assets is amortized on a straight-line basis, over the expected useful life of the asset, as follows:

Buildings	50 years
Flood control infrastructure	50 years
Vehicles and equipment	5 years
Computer equipment	5 years

d) Revenue recognition

Revenue is recognized in the period in which the transactions or events occurred that gave rise to the revenue. All revenue is recorded on an accrual basis.

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

Contributions, other than government transfers, are deferred when restrictions are placed on their use by the external contributor, and are recognized as revenue when used for the specific purpose.

e) Financial instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, they are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired.

f) Employee future benefits

The Authority provides pension benefits to specified employees through the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan. The Authority's contributions due during the period are expensed as incurred.

g) Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2017

2. Cash and cash equivalents

	2017	2016
General operating accounts	\$ 149,445	\$ 306,329
Restricted land sale proceeds	55,434	55,718
Land program reserve funds	19,316	19,001
Short term investments	150,793	-
	<u>\$ 374,988</u>	<u>\$ 381,048</u>

Short term investments consist of a flexible one year GIC with an interest rate of 0.85%.

3. Demand loan

The demand loan is repayable in monthly instalments of \$417 plus interest at prime plus 1.5%, maturing March 2020.

4. Deferred revenue

Deferred revenue represents restricted land sale proceeds and accumulated interest to be used for future land acquisitions, subject to approval by the Ontario Ministry of Natural Resources.

5. Deferred government contributions

	2017	2016
Province of Ontario - Drinking Water Source Protection	\$ 66,985	\$ 75,946
Other	300	300
	<u>\$ 67,285</u>	<u>\$ 76,246</u>

6. Accumulated surplus

	2017	2016
General surplus	\$ 187,949	\$ 154,983
Reserve for forest management	10,222	32,119
Reserve for Outreach and Education - Water	21,344	21,344
Land Program Reserve	19,316	19,001
	<u>238,831</u>	<u>227,447</u>
Investment in tangible capital assets	5,632,683	5,963,566
	<u>\$ 5,871,514</u>	<u>\$ 6,191,013</u>
Allocation of annual surplus (deficit):		
General surplus	\$ 32,966	\$ 29,829
Reserve for forest management	(21,897)	(7,698)
Reserve for Outreach and Education - Water	-	(96)
Land Program Reserve	315	1,861
Investment in tangible capital assets	(330,883)	(341,388)
	<u>\$ (319,499)</u>	<u>\$ (317,492)</u>

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2017

7. Contingent liabilities

The Authority is involved with two legal claims and management has indicated that these claims have been referred to the Authority's insurer. Due to these claims, the Authority is subject to ongoing litigation, the outcomes of which can not be reasonably determined. Any loss as a result of this litigation will be recorded in the period that the loss is probable and measurable.

8. Pension agreements

The Authority makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. This plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, the Authority does not recognize any share of the pension plan deficit, as this is a joint responsibility of all Ontario municipal organizations and their employees. Employer's contributions for current and past service are included as an expense on the statement of operations. The amount contributed to OMERS for 2017 was \$36,435 (2016 - \$35,629).

9. Budget

The Authority's budget was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis. The budget figures may anticipate use of reserves and/or surpluses accumulated in previous years to reduce current year expenditures. In addition, the budget expenses tangible capital expenditures rather than including amortization expense, and expenses principal payments of long term debt. As a result, the budget figures presented in the statements of operations and change in net financial assets represent the Financial Plan adopted by the Authority with adjustments as follows:

Budget deficit for the year	\$ -
Add:	
Principal portion of loan payment	5,800
Less:	
Amortization	<u>(341,389)</u>
Budget deficit per statement of operations	<u>\$ (335,589)</u>

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2017

10. Segmented disclosure

The Authority provides a range of services to residents in its region. For management reporting purposes, operations and activities are organized by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

Services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

General

This department oversees the delivery of all government services. The department is responsible for ensuring that there are adequate policies and procedures in place to safeguard assets and to properly report financial activities.

Drinking Water Source Protection

The Ontario Ministry of the Environment, in partnership with the Ministry of Natural Resources and Conservation Ontario have developed legislation and regulations to implement Source Water Protection Plans to ensure clean drinking water for all Ontarians. Conservation authorities, with funding from the province, are coordinating scientific research, facilitating data gathering and analysis, developing computer models, bringing local residents and stakeholders together as well as providing opportunities for public involvement and comment on a local watershed basis.

For each reported segment, revenue and expenses include amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The Authority allocates certain wages and benefits to General operations and the Drinking Water Source Protection program based on the hours worked for each program. Occupancy costs and administrative expenses are allocated based on the floor area occupied and estimated resources used by each program.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in the summary of significant accounting policies. For additional information see Schedule 2 - Segment Disclosure.

11. Prior period correction

During the year it was discovered that revenue generated from land leases were incorrectly recorded as deferred revenue. As a result, prior year deferred revenue and annual deficit were overstated, while other revenue and opening and ending accumulated surplus were understated. The financial statement amounts that are presented for comparative purposes have been restated to correct this as follows:

Decrease in 2016 deferred revenue	\$19,001
Increase in 2016 other revenue	\$ 1,861
Decrease in 2016 annual deficit	\$ 1,861
Increase in 2016 opening accumulated surplus	\$17,140
Increase in 2016 ending accumulated surplus	\$19,001

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2017

12. Financial Instrument risk

The Authority's management monitors, evaluates and manages the principal risks assumed with financial instruments on a daily basis. The risks that arise from transacting financial instruments include liquidity risk, interest rate risk and credit risk.

Liquidity risk

Liquidity risk arises from the Authority's management of accounts payable and other current liabilities. It is the risk that the organization will encounter difficulty in meeting its financial obligations as they fall due.

Interest rate risk

Interest rate risk arises from the Authority's demand loan. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority's demand loan has a variable interest rate. Changes in the bank's prime lending rate can cause fluctuations in interest payments and cash flows.

Credit risk

Credit risk arises from the Authority's accounts receivable. It is the risk that a third party will fail to discharge its obligation to the organization thereby reducing the expected cash inflow.

Sault Ste. Marie Region Conservation Authority
Schedule 1 - Tangible Capital Assets

December 31, 2017

	Land	Buildings	Vehicles and Equipment	Computer Equipment	Flood Control	2017 Total
Cost						
Balance, beginning of year	\$ 1,655,173	\$ 304,350	\$ 256,337	\$ 26,122	\$ 15,454,493	\$ 17,696,475
Additions	-	-	6,258	-	-	6,258
Disposals	-	-	(25,000)	-	-	(25,000)
Balance, end of year	1,655,173	304,350	237,595	26,122	15,454,493	17,677,733
Accumulated amortization						
Balance, beginning of year	-	171,207	200,886	26,122	11,334,694	11,732,909
Amortization	-	6,087	21,965	-	309,089	337,141
Disposals	-	-	(25,000)	-	-	(25,000)
Balance, end of year	-	177,294	197,851	26,122	11,643,783	12,045,050
Net book value	\$ 1,655,173	\$ 127,056	\$ 39,744	\$ -	\$ 3,810,710	\$ 5,632,683
Net book value, 2016	\$ 1,655,173	\$ 133,143	\$ 55,451	\$ -	\$ 4,119,799	\$ 5,963,566

Sault Ste. Marie Region Conservation Authority
Schedule 3 - Administrative and Water Control Expenses

For the year ended December 31, 2017

	Drinking Water Source		2016	
	General	Protection	Total	Total
Administrative				
Materials	\$ 9,095	\$ -	\$ 9,095	\$ 11,784
Other	23,911	22,811	46,722	44,316
Rent and utilities	5,736	-	5,736	5,817
Staff training	3,867	-	3,867	2,084
Travel and allowance	12,070	758	12,828	11,783
Wages and benefits	239,539	66,212	305,751	296,256
Administration and rent transfers	(13,992)	13,992	-	-
	\$ 280,226	\$ 103,773	\$ 383,999	\$ 372,040
Water control				
Flood warning	\$ 23,973	\$ -	\$ 23,973	\$ 13,742
Maintenance of control structures	59,776	-	59,776	62,164
Taxes, insurance and utilities	28,574	-	28,574	29,472
Wages and benefits	237,915	-	237,915	238,114
Vehicle & maintenance expense/recovery	(47,002)	-	(47,002)	(45,405)
	\$ 303,236	\$ -	\$ 303,236	\$ 298,087

Sault Ste. Marie Region Conservation Authority
Schedule 2 - Segment Disclosure

For the year ended December 31, 2017

	Drinking Water Source			2016 Total
	General	Protection	Total	
Revenue				
Government contributions				
Provincial	\$ 131,940	\$ 103,774	\$ 235,714	\$ 233,754
Municipal - City of Sault Ste. Marie	481,563	-	481,563	475,065
Municipal - Prince Township	5,284	-	5,284	5,284
Rental income	6,422	-	6,422	7,373
Other	65,393	-	65,393	52,163
Gain on sale of capital asset	4,867	-	4,867	-
	<u>695,469</u>	<u>103,774</u>	<u>799,243</u>	<u>773,639</u>
Expenses				
Salaries and benefits	505,449	66,213	571,662	573,006
Materials and supplies	80,868	23,569	104,437	89,196
Contracted services	96,296	-	96,296	73,095
Rents and financial	9,206	-	9,206	14,446
Administration and rent transfers	(13,992)	13,992	-	-
Amortization	337,141	-	337,141	341,388
	<u>1,014,968</u>	<u>103,774</u>	<u>1,118,742</u>	<u>1,091,131</u>
Deficiency of revenue over expenses	\$ (319,499)	\$ -	\$ (319,499)	\$ (317,492)