

Sault Ste. Marie Region Conservation Authority
Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Sault Ste. Marie Region Conservation Authority (the Entity), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated surplus, change in net financial assets 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 Entity as at December 31, 2018, and its 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.

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 Entity 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 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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:

- 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 Entity'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 Entity'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 Entity 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.



Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Ontario
March 19, 2019

Sault Ste. Marie Region Conservation Authority
Statement of Financial Position

December 31	2018	2017
Financial assets		
Cash and cash equivalents (Note 2)	\$ 373,442	\$ 374,988
Accounts receivable	85,209	18,833
	<u>458,651</u>	<u>393,821</u>
Liabilities		
Demand loan (Note 3)	6,667	11,667
Accounts payable and accrued liabilities	20,161	20,900
Deferred revenue (Note 4)	55,506	55,434
Deferred government contributions (Note 5)	127,684	67,285
	<u>210,018</u>	<u>155,286</u>
Net financial assets	<u>248,633</u>	<u>238,535</u>
Non-financial assets		
Tangible capital assets (Schedule 1)	5,295,542	5,632,683
Prepaid expenses	414	296
	<u>5,295,956</u>	<u>5,632,979</u>
Accumulated surplus (Note 6)	<u>\$ 5,544,589</u>	<u>\$ 5,871,514</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 2018	2018	2017
Revenue			
Government contributions			
Provincial	\$ 255,940	\$ 256,046	\$ 235,714
Municipal - City of Sault Ste. Marie	489,750	489,750	481,563
Municipal - City of Sault Ste. Marie - WECL	-	45,000	-
Municipal - Prince Township	5,374	5,374	5,284
Rental income	-	6,988	6,422
Other	35,500	71,429	65,393
Gain on sale of capital asset	-	-	4,867
	<u>786,564</u>	<u>874,587</u>	<u>799,243</u>
Expenses			
Administrative (Schedule 3)	478,248	440,576	383,999
Conservation land taxes and insurance	16,000	22,334	17,851
Water control (Schedule 3)	231,145	344,360	303,236
Trails and recreation	42,000	46,473	43,585
Legal fees	-	795	-
Other	7,000	9,833	32,930
Amortization of tangible capital assets	337,141	337,141	337,141
	<u>1,111,534</u>	<u>1,201,512</u>	<u>1,118,742</u>
Annual deficit	(324,970)	(326,925)	(319,499)
Accumulated surplus, beginning of year	<u>5,871,514</u>	<u>5,871,514</u>	<u>6,191,013</u>
Accumulated surplus, end of year	<u>\$ 5,546,544</u>	<u>\$ 5,544,589</u>	<u>\$ 5,871,514</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 2018	2018	2017
Annual deficit	\$ (324,970)	\$ (326,925)	\$ (319,499)
Amortization of tangible capital assets	337,141	337,141	337,141
(Increase) decrease in prepaid expenses	-	(118)	3,356
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	12,171	10,098	14,740
Net financial assets, beginning of year	238,535	238,535	223,795
Net financial assets, end of year	\$ 250,706	\$ 248,633	\$ 238,535

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

2018

2017

Operating transactions

Annual deficit	\$ (326,925)	\$ (319,499)
Items not involving cash		
Gain on disposal of tangible capital assets	-	(4,867)
Amortization of tangible capital assets	337,141	337,141

10,216 **12,775**

Changes in non-cash working capital balances

Accounts receivable	(66,376)	(12,856)
Prepaid expenses	(118)	3,356
Accounts payable and accrued liabilities	(739)	6,301
Deferred revenue	72	(284)
Deferred government contributions	60,399	(8,961)

3,454 **331**

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)	(5,000)
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Decrease in cash and cash equivalents

(1,546) **(6,060)**

Cash and cash equivalents, beginning of year

374,988 **381,048**

Cash and cash equivalents, end of year

\$ 373,442 \$ 374,988

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2018

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, 2018

2. Cash and cash equivalents

	2018	2017
General operating accounts	\$ 146,207	\$ 149,445
Restricted land sale proceeds	55,506	55,434
Land program funds	19,316	19,316
Short term investments	152,413	150,793
	<u>\$ 373,442</u>	<u>\$ 374,988</u>

Short term investments consist of a flexible one year GIC with an interest rate of 1.20%.

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

	2018	2017
Province of Ontario - Drinking Water Source Protection	\$ 113,767	\$ 66,985
Province of Ontario - Other	13,617	-
Other	300	300
	<u>\$ 127,684</u>	<u>\$ 67,285</u>

6. Accumulated surplus

	2018	2017
General surplus	\$ 220,584	\$ 207,265
Reserve for forest management	10,222	10,222
Reserve for Outreach and Education - Water	18,241	21,344
	<u>249,047</u>	<u>238,831</u>
Investment in tangible capital assets	5,295,542	5,632,683
	<u>\$ 5,544,589</u>	<u>\$ 5,871,514</u>
Allocation of annual surplus (deficit):		
General surplus	\$ 13,319	\$ 33,281
Reserve for forest management	-	(21,897)
Reserve for Outreach and Education - Water	(3,103)	-
Investment in tangible capital assets	(337,141)	(330,883)
	<u>\$ (326,925)</u>	<u>\$ (319,499)</u>

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2018

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 2018 was \$44,166 (2017 - \$36,435).

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	12,171
Less:	
Amortization	<u>(337,141)</u>
Budget deficit per statement of operations	<u>\$ (324,970)</u>

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2018

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.

Sault Ste. Marie Region Conservation Authority

Notes to Financial Statements

December 31, 2018

11. 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, 2018

	Land	Buildings	Vehicles and Equipment	Computer Equipment	Flood Control	2018 Total
Cost						
Balance, beginning of year	\$ 1,655,173	\$ 304,350	\$ 237,595	\$ 26,122	\$ 15,454,493	\$ 17,677,733
Additions	-	-	-	-	-	-
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	-	177,294	197,851	26,122	11,643,783	12,045,050
Amortization	-	6,087	21,965	-	309,089	337,141
Balance, end of year	-	183,381	219,816	26,122	11,952,872	12,382,191
Net book value	\$ 1,655,173	\$ 120,969	\$ 17,779	\$ -	\$ 3,501,621	\$ 5,295,542
Net book value, 2017	\$ 1,655,173	\$ 127,056	\$ 39,744	\$ -	\$ 3,810,710	\$ 5,632,683

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

For the year ended December 31, 2018

	Drinking Water Source			2017 Total
	General	Protection	Total	
Revenue				
Government contributions				
Provincial	\$ 162,153	\$ 93,892	\$ 256,045	\$ 235,714
Municipal - City of Sault Ste. Marie	534,750	-	534,750	481,563
Municipal - Prince Township	5,374	-	5,374	5,284
Rental income	6,989	-	6,989	6,422
Other	71,429	-	71,429	65,393
Gain on sale of capital asset	-	-	-	4,867
	780,695	93,892	874,587	799,243
Expenses				
Salaries and benefits	538,858	74,363	613,221	571,662
Materials and supplies	153,412	7,189	160,601	104,437
Contracted services	79,224	-	79,224	96,296
Rents and financial	11,325	-	11,325	9,206
Administration and rent transfers	(12,340)	12,340	-	-
Amortization	337,141	-	337,141	337,141
	1,107,620	93,892	1,201,512	1,118,742
Deficiency of revenue over expenses	\$ (326,925)	\$ -	\$ (326,925)	\$ (319,499)

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

For the year ended December 31, 2018

	Drinking Water Source		Total		2017 Total
	General	Protection			
Administrative					
Materials	\$ 7,337	\$ -	\$ 7,337	\$	9,095
Other	100,283	7,189	107,472		46,722
Rent and utilities	4,181	-	4,181		5,736
Staff training	572	-	572		3,867
Travel and allowance	9,917	-	9,917		12,828
Wages and benefits	236,733	74,364	311,097		305,751
Administration and rent transfers	(12,340)	12,340	-		-
	\$ 346,683	\$ 93,893	\$ 440,576	\$	383,999
Water control					
Flood warning	\$ 18,242	\$ -	\$ 18,242	\$	23,973
Maintenance of control structures	78,946	-	78,946		59,776
Taxes, insurance and utilities	34,016	-	34,016		28,574
Wages and benefits	259,409	-	259,409		237,915
Vehicle & maintenance expense/recovery	(46,253)	-	(46,253)		(47,002)
	\$ 344,360	\$ -	\$ 344,360	\$	303,236