

Financial Statements of
Tomahawk Rural Electrification Association Limited
December 31, 2019

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Tomahawk Rural Electrification Association Limited
December 31, 2019

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Independent Auditors' Report

To the Directors of Tomahawk Rural Electrification Association Limited

Qualified Opinion

We have audited the accompanying financial statements of Tomahawk Rural Electrification Association Limited, which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in net 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, except for the effect of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

Prior to 2015, the Association has not recorded the historical cost or related amortization of any property, plant and equipment relating to its electrification distribution assets. We were unable to satisfy ourselves as to correct historical costs, related accumulated amortization or current amortization expense for such assets. Accordingly, we were unable to determine whether any adjustments might be necessary to the statement of operations, statement of financial position, statement of changes in net assets or cash flow statement balances. Our audit opinion on the financial statements for the year ending December 31, 2019 was modified accordingly because of the possible effects of this scope limitation.

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 Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 qualified audit 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 accounting standards for not-for-profit organizations, 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.

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

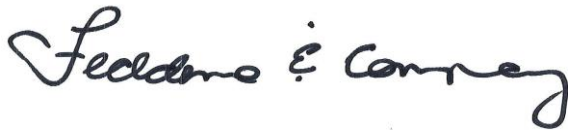
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud and 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 and 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 judgement 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 Association'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 Association'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 Association 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 representation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during our audit.



Feddema & Company
Chartered Professional Accountants

Drayton Valley, Alberta
April 15, 2020

Statement of Operations
Tomahawk Rural Electrification Association Limited
Year ended December 31, 2019

	2019	2018
REVENUE		
Distribution and tariff revenue	\$ 942,295	\$ 938,139
COST OF ENERGY TRANSMISSION AND DISTRIBUTION		
Transmission	374,830	360,395
Distribution service operations	178,447	178,148
	553,277	538,543
GROSS MARGIN	389,018	399,596
OTHER REVENUE		
Amortization of capital contributions	121,500	118,800
Salvage and line cost recovery	55,971	1,320
Interest - reserve account	47,571	36,504
Interest - general	12,666	9,282
System shares	-	400
Memberships	-	4
	237,708	166,310
EXPENSES		
Amortization	136,959	131,710
Operational maintenance, line moves, salvage and brushing	128,806	44,494
Legal fees	43,471	61,836
Wages and wage costs	39,836	43,253
Audit fees	23,000	21,000
Annual general meeting	16,793	27,083
Memberships and dues	13,720	14,695
Interest on long-term debt	8,167	8,780
Office	6,988	7,695
Directors fees and honoraria	6,270	7,560
Advertising and promotion	4,507	2,515
Travel, meetings and convention	4,145	4,630
Rent	3,190	3,000
Contract bookkeeping	2,535	3,010
Insurance	2,306	1,911
Interest and penalties	189	639
Professional fees - distribution system valuation	-	20,803
	440,882	404,614
EXCESS OF REVENUE OVER EXPENSES	\$ 185,844	\$ 161,292

Statement of Financial Position
Tomahawk Rural Electrification Association Limited
December 31, 2019

	2019	2018
<u>ASSETS</u>		
CURRENT ASSETS		
Unrestricted cash	\$ 370,788	\$ 562,333
Restricted cash (Note 2)	1,973,287	1,926,571
Accounts receivable	232,098	182,987
GST recoverable	13,023	6,054
Prepaid expenses	17,663	-
Promissory notes receivable within one year (Note 3)	10,316	10,556
	2,617,175	2,688,501
Promissory notes receivable after one year (Note 3)	176,560	196,511
	2,793,735	2,885,012
PLANT AND EQUIPMENT (Note 4)	3,938,096	3,828,148
	\$ 6,731,831	\$ 6,713,160
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 276,158	\$ 320,378
Loans payable within one year (Note 5)	12,798	13,737
	288,956	334,115
Loans payable after one year (Note 5)	172,829	193,980
	461,785	528,095
CAPITAL CONTRIBUTIONS (Note 6)	3,284,949	3,385,812
	3,746,734	3,913,907
NET ASSETS		
Investment in plant and equipment	654,396	441,686
Deposit reserve	1,973,287	1,926,571
Unrestricted	357,414	430,996
	2,985,097	2,799,253
	\$ 6,731,831	\$ 6,713,160

APPROVED BY THE BOARD:

_____ DIRECTOR

_____ DIRECTOR

Statement of Cash Flows
Tomahawk Rural Electrification Association Limited
Year ended December 31, 2019

	2019	2018
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 185,844	\$ 161,292
Items not affecting cash flow		
Amortization of capital contributions	(121,500)	(118,800)
Amortization	136,959	131,710
	201,303	174,202
Net change in non-cash working capital (Note 8)	(117,963)	36,120
	83,340	210,322
INVESTING ACTIVITIES		
Purchase of plant and equipment	(246,907)	(223,634)
FINANCING ACTIVITIES		
Capital contributions received	20,637	74,046
Acquisition of promissory notes receivable	-	(18,609)
Payments received on promissory notes receivable	20,191	16,020
Acquisition of long-term debt	-	18,609
Principal repayment of long-term debt	(22,090)	(20,912)
	18,738	69,154
(DECREASE) INCREASE IN CASH	(144,829)	55,842
CASH, BEGINNING OF YEAR	2,488,904	2,433,062
CASH, END OF YEAR (Note 8)	\$ 2,344,075	\$ 2,488,904

Statement of Changes in Net Assets
Tomahawk Rural Electrification Association Limited
Year ended December 31, 2019

				2019	2018
	Investment in Plant and Equipment	Deposit Reserve	Unrestricted	Total	Total
BALANCE, BEGINNING OF YEAR	\$ 441,686	\$ 1,926,571	\$ 430,996	\$ 2,799,253	\$ 2,637,961
Excess (Deficiency) of revenue over expenses	(15,459)	47,571	153,732	185,844	161,292
Additions to distribution system	246,907	-	(246,907)	-	-
Capital contributions	(20,637)	-	20,637	-	-
Repayment of promissory notes receivable	(20,191)	-	20,191	-	-
Repayment of long-term debt	22,090	(855)	(21,235)	-	-
BALANCE, END OF YEAR	\$ 654,396	\$ 1,973,287	\$ 357,414	\$ 2,985,097	\$ 2,799,253

Notes to the Financial Statements
Tomahawk Rural Electrification Association Limited
December 31, 2019

Note 1: Significant Accounting Policies

The significant accounting policies observed in the preparation of these financial statements are summarized below. These policies are in accordance with Accounting Standards for Not-for-Profit Organizations.

Purpose of Organization

The Tomahawk Rural Electrification Association Limited is a local rural electrification association and is governed by the Rural Utilities Act and Regulations of Alberta.

Revenue Recognition

The Tomahawk Rural Electrification Association Limited has adopted the deferral method of accounting for contributions, wherein restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Deposit Reserve Fund

The deposit reserve fund is maintained for ongoing maintenance and system replacement costs.

Plant and Equipment

Plant and equipment are recorded at cost. The association provides amortization using the following methods and rates:

	<u>Method</u>	<u>Rate</u>
Distribution system	Straight line	52 years

Prior to the fiscal year ending December 31, 2015, the Association has not recorded the historical cost of plant and equipment acquired, or the related amortization of these assets. The current year reflects estimates of historical cost and related accumulated amortization going back to the inception of the association as provided in the current year's historical cost valuation report commissioned.

Capital Contributions

Capital contributions represent payments received from members toward the direct cost of new service construction and is amortized into income at the same rate that the related electrical distribution system is amortized.

Capital contribution amounts have been estimated based on the estimated historical cost and related accumulated amortization set forth in the current year's historical cost valuation report commissioned.

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Notes to the Financial Statements
Tomahawk Rural Electrification Association Limited
December 31, 2019

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Financial Instruments

The organization does not disclose fair value information about financial assets and liabilities for which fair value was not readily obtainable.

Other amounts noted on the Balance Sheet such as prepaid expenses, property, plant and equipment and deferred revenue are not financial instruments.

Measurement of financial instruments

The organization initially measures its financial assets and liabilities at fair value.

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include accounts receivable and program cost recovery amounts receivable.

Financial liabilities measured at amortized cost include accounts payable, deferred salaries and bank loans payable.

The organization holds Nil financial instruments measured at fair value.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Transaction costs

The organization recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance, or assumption.

Note 2: Restricted Cash

The association has invested its Deposit Reserve funds in high interest savings account and in term deposits as follows:

	2019	2018
Alberta Treasury Branch savings account	\$ 144,793	\$ 407,689
Alberta Treasury Branch term deposits	1,828,494	1,518,882
	\$ 1,973,287	\$ 1,926,571

Notes to the Financial Statements
Tomahawk Rural Electrification Association Limited
December 31, 2019

Note 3: Promissory Notes Receivable

The association holds promissory notes receivable owing from members who have utilized the EQUUS Investment Program. The notes are being paid down by way of monthly IRDR payments, and bear no interest.

	2019	2018
Promissory notes receivable within one year	\$ 10,316	\$ 10,556
Promissory notes receivable after one year	176,560	196,511
	\$ 186,876	\$ 207,067

Note 4: Plant and Equipment

	2019	2018
Cost	Accumulated Amortization	Net Book Value
Cost	Amortization	Value
Distribution system	\$ 6,874,287	\$ 2,936,191
	\$ 3,938,096	\$ 3,828,148

Amortization provided for in the current year totalled \$136,959 (2018 - \$131,710).

Prior to the fiscal year ending December 31, 2015, the Association has not recorded the historical cost of plant and equipment acquired, or the related amortization of these assets.

During the 2018 fiscal year, the association commissioned an independent valuator to calculate estimated historical cost and accumulated amortization amounts for the association's distribution system assets from the inception of the association. These estimates were based on a reverse extrapolation of current costs over time historically, using factors such as past annual service installation totals and inflation.

The conclusions of this exercise do not constitute a replacement cost minus depreciation approach, a current valuation of the association's distribution assets, or a valuation of the association as a whole.

Notes to the Financial Statements
Tomahawk Rural Electrification Association Limited
December 31, 2019

Note 5: Loans Payable

The association is applying the requirements of section 1510 of Part II of the CICA Handbook, which requires all callable debt obligations to be classified as current liabilities regardless of repayment schedule and compliance with covenants. As of the year end date, the association is in compliance with the terms and conditions of its credit facilities.

Although the long term debt has been classified as a current liability due to its demand nature, it is subject to the repayment terms as outlined below.

	2019	2018
Loan payable to EQUUS, due on demand, with monthly instalments of \$1,667 including principal and interest at 4.08%. Monthly loan payments include Investment Rate Recovery Rider collected from members for which the loans pertain to.	\$ 185,627	\$ 206,863
Loan payable to Government of Alberta, due on demand, with quarterly principal instalments of \$646 with interest at 0% through February 2019. Loan paid out in full during year.	-	646
Loan payable to Government of Alberta, due on demand, with quarterly principal instalments of \$104 with interest at 0% through May 2019. Loan paid out in full during year.	-	208
	185,627	207,717
Principal amount payable within one year	12,798	13,737
Principal amount payable after one year	\$ 172,829	\$ 193,980

Principal amounts payable in future years are as follows:

2020	\$	12,798
2021		13,330
2022		13,884
2023		14,461
2024		15,063
thereafter		116,091
	\$	185,627

Notes to the Financial Statements
Tomahawk Rural Electrification Association Limited
December 31, 2019

Note 6: Capital Contributions

		2019	2018
Total	Accumulated	Net	Net
Contribution	Amortization	Contribution	Contribution
\$ 5,926,019	\$ 2,641,070	\$ 3,284,949	\$ 3,385,812

During the year, the Association received contributions from members and non-members of \$20,637 (2018 - \$74,406) and recorded amortization of capital contributions of \$121,500 (2018 - \$118,800).

Prior to the fiscal year ending December 31, 2015, the Association has not recorded the historical cost of plant and equipment acquired, or the related capital contributions. The current year reflects estimates of historical capital contributions and related accumulated amortization going back to the inception of the association.

Note 7: Exemption from Income Tax

The association is a non-profit organization and is therefore exempt from income tax under Section 149(1)(l) of the Income Tax Act.

Note 8: Notes to the Statement of Cash Flows

		2019	2018
Net change in non-cash working capital is comprised of:			
Accounts receivable		\$ (49,111)	\$ (17,535)
GST recoverable		(6,969)	82
Prepaid expenses		(17,663)	975
Accounts payable		(44,220)	52,598
		\$ (117,963)	\$ 36,120
Cash consists of the following:			
Unrestricted cash		\$ 370,788	\$ 562,333
Restricted cash		1,973,287	1,926,571
		\$ 2,344,075	\$ 2,488,904

Note 9: Measurement Uncertainty

The financial statements have been prepared in accordance with generally accepted accounting policies. The precise value of many assets and liabilities is dependent on future events. As a result, the preparation of financial statements for a period involves the use of approximations which have been made using careful judgement. Actual results could differ from those approximations.

Notes to the Financial Statements
Tomahawk Rural Electrification Association Limited
December 31, 2019

Note 10: Financial Instruments

Risks and concentrations

The organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the entity's risk exposure and concentrations at the balance sheet date.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The organization is exposed to credit risk on its accounts receivable. In order to reduce its credit risk, the organization has adopted credit policies which include the analysis of the financial position of its customers and regular review of their credit limits. An allowance for doubtful accounts has been established, if necessary, based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The organization is mainly exposed to interest rate risk.

Interest rate risk

Interest rate risk 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 company is exposed to interest rate risk on its floating interest rate financial instruments. The organization's loans payable subject it to a cash flow risk.

Note 11: Contingencies

During the 2017 year, the organization entered into a commercial service agreement with New Star Energy Ltd. Fortis Alberta Inc. (Fortis) challenged this agreement, contending that the agreement violates the terms of the 2005 Wire Owner Agreement between Fortis and the organization. The organization has agreed to sell this service to Fortis and recover the organization's related costs, but Fortis had been unable to obtain an easement from the affected land owner, as required to operate the distribution line in its current location. This easement has now been obtained, and the organization is currently in the process of determining the value of the related assets, for purposes of sale of these assets to Fortis. A sale agreement has not been finalized as at the date of issuance of these financial statements.