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QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018

Baker Tilly KDN LLP
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Quinte Conservation Association

Opinion
We have audited the financial statements of the Quinte Conservation Association (the Association), which comprise the statement of financial position as at December 31, 2018, the statements of operations and accumulated surplus, change in net financial liabilities 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 Association as at December 31, 2018, and the the results of its operations and cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

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 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.

Other Matter
The financial statements of the Association as at and for the year ended December 31, 2017 were audited by Collins Barrow Kawarthas LLP, which became Baker Tilly KDN LLP effective January 10, 2019.

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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.

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

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 18, 2019

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION
STATEMENT OF FINANCIAL POSITION
At December 31, 2018

	2018 $	2017 $
FINANCIAL ASSETS		
Cash	-	2,559
Accounts receivable	84,372	40,712
Funds held in trust (note 8)	499,852	476,310
TOTAL FINANCIAL ASSETS	584,224	519,581
LIABILITIES		
Bank indebtedness (note 3)	51,655	310,000
Accounts payable	170,677	27,079
Due to Quinte Conservation Authority (note 4)	740,743	450,743
Long term debt (note 8)	2,318,502	2,480,709
TOTAL LIABILITIES	3,281,577	3,268,531
NET FINANCIAL LIABILITIES	(2,697,353)	(2,748,950)
NON-FINANCIAL ASSETS		
Tangible capital assets (note 7)	4,147,599	4,211,372
ACCUMULATED SURPLUS (note 6)	1,450,246	1,462,422

The accompanying notes are an integral part of these financial statements

QUINTE CONSERVATION ASSOCIATION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the Year Ended December 31, 2018

	Actual 2018 $	Actual 2017 $
REVENUES		
Hydro generation	352,367	510,928
Investment income	5,991	2,892
TOTAL REVENUES	358,358	513,820
EXPENSES		
Interest on long term debt	154,351	164,399
Maintenance and repairs	64,702	18,622
Amortization	63,773	63,772
Contract wages	66,107	50,155
Professional fees	9,424	9,008
Administration	8,558	10,742
Insurance	3,619	3,820
TOTAL EXPENSES	370,534	320,518
ANNUAL SURPLUS/(DEFICIT)	(12,176)	193,302
ACCUMULATED SURPLUS - beginning of year	1,462,422	1,269,120
ACCUMULATED SURPLUS - end of year	1,450,246	1,462,422

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION
STATEMENT OF CHANGE IN NET FINANCIAL LIABILITIES
For the Year Ended December 31, 2018

	Actual 2018 $	Actual 2017 $
ANNUAL SURPLUS/(DEFICIT)	(12,176)	193,302
Amortization of tangible capital assets	63,773	63,772
CHANGE IN NET FINANCIAL LIABILITIES	51,597	257,074
NET FINANCIAL LIABILITIES - beginning of year	(2,748,950)	(3,006,024)
NET FINANCIAL LIABILITIES - end of year	(2,697,353)	(2,748,950)

QUINTE CONSERVATION AUTHORITY

QUINTE CONSERVATION ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	2018 $	2017 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Annual surplus/(deficit)	(12,176)	193,302
Items not involving cash		
Amortization of tangible capital assets	63,773	63,772
Change in non-cash working capital		
Accounts receivable	(43,660)	7,691
Funds held in trust	(23,542)	(39,158)
Accounts payable	143,598	3,613
Due to Quinte Conservation Authority	290,000	(4,295)
Net change in cash from operating activities	417,993	224,925
FINANCING ACTIVITIES		
Debt principal repayments	(162,207)	(152,158)
Bank indebtedness repayments	(258,345)	(75,000)
Net change in cash from financing activities	(420,552)	(227,158)
NET CHANGE IN CASH	(2,559)	(2,233)
CASH - beginning of year	2,559	4,792
CASH - end of year	-	2,559

1. NATURE OF ORGANIZATION

Quinte Conservation Association was incorporated without share capital, on October 13, 1998. During 2009 the Association assumed the construction and operations of the McLeod Dam hydroelectric generating facility. The purpose of the Association is to operate and maintain the McLeod Dam hydroelectricity generation for green energy which is used locally.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the standards in the Chartered Professional Accountants Canada Public Sector Accounting (PSA) Handbook. Significant aspects of the accounting policies adopted by the Association are as follows:

(a) Recognition of revenue and expenses

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue in the period in which the transactions of events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

Hydro generation revenues are recognized as revenue in the year the generation occurs.

(b) Use of estimates

Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on the Association's best information and judgment. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. The Association's significant estimates include:

- The amounts recorded for amortization and opening costs of tangible capital assets are based on estimates of useful life, residual values and valuation rates.

(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:

Dams and weirs	75 years
Machinery and equipment	75 years

(d) Non-financial assets

Tangible capital assets and other non-financial assets are accounted for as assets by the Association because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the Association unless they are sold.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(e) Inter-Entity Transactions

The Quinte Conservation Association is controlled by Quinte Conservation Authority and is consolidated with the Authority's financial statements.

Allocated costs and recovery of costs are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Unallocated costs are measured at the carrying amount, which is the amount recorded in the records of the Authority.

Assets and/or liabilities transferred between the Association and Authority are measured at the carrying amount.

3. BANK INDEBTEDNESS

The Association has a revolving credit facility agreement with its main financial institution. The amount available at any time is limited to $1,000,000 via an operating loan. Any balance borrowed will accrue interest at the bank's prime lending rate. The Association authorized the temporary borrowing limit on February 12, 2007. At December 31, 2018 there was a balance outstanding of $35,000 (2017 - $310,000). Included in bank indebtedness in 2018 is an overdrawn bank account of $16,655 due to outstanding cheques of $17,574.

4. INTER-ENTITY TRANSACTIONS

During the year, the Association entered into transactions with Quinte Conservation Authority.

Advances received from Quinte Conservation Authority, a related party, were to fund operations. Quinte Conservation Authority is a related party due to common control. The advances are non-interest bearing with no specific terms of repayment.

In addition, Quinte Conservation Authority provides accounting and administrative services to the Association at no cost.

5. ECONOMIC DEPENDENCE

The major source of revenue is in the form of hydro generation sales to Veridian Connections Inc. The nature and extent of this revenue is of such significance as to affect the viability of the organization and accordingly, it can be said that the organization is economically dependent upon Veridian Connections Inc.

6. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2018 $	2017 $
Deficit		
Operating	(378,851)	(268,241)
Invested In Capital Assets		
Tangible capital assets - net book value	4,147,599	4,211,372
Long term debt	(2,318,502)	(2,480,709)
	1,829,097	1,730,663
	1,450,246	1,462,422

7. TANGIBLE CAPITAL ASSETS

The net book value of the Association's tangible capital assets are:

	Dams & weirs $	Machinery & Equipment $	2018 Totals $	2017 Totals $
COST				
Balance, beginning of year	4,723,727	59,230	4,782,957	4,782,957
Balance, end of year	4,723,727	59,230	4,782,957	4,782,957
ACCUMULATED AMORTIZATION				
Balance, beginning of year	566,846	4,739	571,585	507,813
Add: additions during the year	62,983	790	63,773	63,772
Balance, end of year	629,829	5,529	635,358	571,585
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	4,093,898	53,701	4,147,599	4,211,372

During the year there were no write-downs of assets (2017 - $Nil) and no interest capitalized (2017 - $Nil).

8. LONG TERM DEBT

(a) Long term debt consists of the following:

	2018 $	2017 $
Loan from Corpfinance, repayable in blended monthly instalments of $26,380 with interest at 6.412% (2017 - 6.412%), due November 1, 2028	2,318,502	2,480,709

(b) Interest paid during the year on long term debt amounted to $154,351 (2017 - $164,399).

(c) The funds held in trust of $499,852 (2017 - $476,310) reported on the Statement of Financial Position is comprised of $328,038 (2017 - $323,979) debt service reserve fund described in (d) below plus $171,814 (2017 - $152,331) maintenance reserve fund.

(d) The loan is secured by a general security agreement over all assets of the McLeod Dam Hydroelectric Generating Facility operating as Quinte Conservation Association. As part of the loan agreement with Corpfinance, the Association is required to provide for a debt service reserve fund account in the amount of $316,558, representing 12 months of debt payments. The loan agreement requires a minimum debt service coverage ratio of 1.05:1 as well as a minimum amount of working capital as defined by the agreement. As of December 31, 2018, the Association is not in compliance with the debt service coverage ratio requirement, nor the working capital requirement. However, subsequent to the year-end Corpfinance confirmed their intention not to call the loan early and to proceed with the agreed payment schedule reflected in these financial statements.

(e) The long term debt reported in (a) of this note is repayable as follows:

	Principal $	Interest $	Total $
2019	172,919	143,639	316,558
2020	184,338	132,220	316,558
2021	196,511	120,047	316,558
2022	209,489	107,069	316,558
2023	223,323	93,235	316,558
2024 and subsequent years	1,331,922	224,488	1,556,410
	2,318,502	820,698	3,139,200

9. CHANGES IN ACCOUNTING POLICIES

The Association has implemented the following PSA sections which are now effective under the PSA Handbook: 3320 Contingent Assets, 3380 Contractual Rights, 2200 Related Party Disclosures and 3420 Inter-Entity Transactions.

Under Section 3320, a contingent asset is a potential asset that exists at the financial statement date but requires confirmation or disproval at a future date that is not in the control of the public-sector entity. If the contingent asset is deemed to be likely to exist, then this should be disclosed in the notes to the financial statements. Disclosure should include the nature, extent (except in those cases where extent cannot be measured or disclosure would have an adverse effect on the outcome), the reason for any non-disclosure of extent, and when an estimate of the amount has been made, the basis for that estimate. This section has been applied prospectively. The adoption of this standard did not have an impact on the Association's financial statements.

Under Section 3380, a contractual right arises out of a contract or agreement where it will result in the municipality having both an asset and future revenue. The contract or agreement must be between two or more parties and be enforceable under contract law. Contractual rights are assets and revenues that will occur in the future due to an enforceable agreement in effect at the financial statement date. If a contractual right exists, it should be disclosed in the notes or schedules to the statements and include descriptions about nature, extent and timing. This section has been applied prospectively. The adoption of this standard did not have an impact on the Association's financial statements.

Section 3240 establishes the standards and requirements on how to account for and Section 2200 establishes the standards and requirements on how to report transactions between public sector entities that comprise the government's reporting entity. This section has been applied retroactively without restatement of prior periods. The adoption of these standards resulted in additional note disclosures in the Association's financial statements.