

**NORTH RED DEER RIVER WATER  
SERVICES COMMISSION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2011**



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## Independent Auditor's Report

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To the Members of the Board of the  
North Red Deer River Water Services Commission

*Report on the Consolidated Financial Statements*

We have audited the accompanying financial statements of North Red Deer River Water Services Commission, which comprise the Consolidated Statement of Financial Position as at December 31, 2011, and the Consolidated Statements of Operations, Change in Net Debt 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 generally accepted accounting principles, 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 North Red Deer River Water Services Commission as at December 31, 2011, and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Red Deer, Alberta  
April 16, 2012

CHARTERED ACCOUNTANTS

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011 \$	2010 \$ Restated
<b>Financial assets</b>		
Cash (bank indebtedness)	(27,864)	1,030,674
Trade and other receivables	667,046	790,788
Due from related party	1,551,986	-
	<u>2,191,168</u>	<u>1,821,462</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	358,382	368,504
Current portion of long-term debt (Note 4)	539,151	515,637
	<u>897,533</u>	<u>884,141</u>
Long-term debt, net of current portion (Note 4)	15,911,038	16,450,189
	<u>16,808,571</u>	<u>17,334,330</u>
<b>Net debt</b>	<b>(14,617,403)</b>	<b>(15,512,868)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 7)	34,059,074	34,524,684
Inventory of supplies (Note 6)	56,647	20,577
<b>Accumulated surplus (Note 9)</b>	<b>19,498,318</b>	<b>19,032,393</b>

Approved on Behalf of the Commission

  
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Vice-Chairperson

  
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Administrator

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>REVENUE</b>	Budget \$	2011 \$	2010 \$ Restated
Water sales to commission members (Note 10)	4,885,840	4,448,027	4,022,840
Service fees charged to commission members (Note 10)	150,000	131,432	132,771
Investment income (Note 12)	7,000	14,172	8,736
Other revenue	150	38	2,379
	<u>5,042,990</u>	<u>4,593,669</u>	<u>4,166,726</u>
<b>OPERATING EXPENSES</b>			
Accounting and audit fees	15,150	14,788	14,500
Advertising and promotions	-	-	945
Board remuneration	15,375	4,800	5,150
Board travel	5,000	446	754
Communication	11,360	8,327	8,870
Computer expenses	-	-	2,250
General materials and supplies	750	537	3,971
Insurance	5,500	4,350	4,376
Interest on long-term debt (Note 12)	759,264	757,651	780,436
Legal	1,000	400	-
Management fees	44,286	42,260	39,659
Office	2,250	78	388
Operator costs	105,000	82,664	91,001
Other expenses	1,090	830	790
Other professional fees	62,000	6,468	158,879
Purchase of water	2,861,265	2,710,912	2,369,297
Rent	-	-	600
Repairs and maintenance	23,700	12,542	1,390
SCADA maintenance	13,000	10,764	15,729
Travel	-	-	1,430
Utilities	5,000	3,975	2,946
Valves	5,000	342	-
Amortization of capital assets	-	465,610	465,609
	<u>3,935,990</u>	<u>4,127,744</u>	<u>3,968,970</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u>1,107,000</u>	<u>465,925</u>	<u>197,756</u>
<b>ACCUMULATED SURPLUS, beginning of year</b>	<u>19,032,393</u>	<u>19,032,393</u>	<u>18,834,637</u>
<b>ACCUMULATED SURPLUS, end of year</b>	<u><u>20,139,393</u></u>	<u><u>19,498,318</u></u>	<u><u>19,032,393</u></u>

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget \$	2011 \$	2010 \$ Restated
Excess of revenue over expenses	1,107,000	<b>465,925</b>	197,756
Amortization of tangible capital assets		<b>465,610</b>	465,609
Inventory of Supplies	-	<b>(36,070)</b>	(20,577)
Net change in net debt	1,107,000	<b>895,465</b>	642,788
Net debt, beginning of year	(15,512,868)	<b>(15,512,868)</b>	(16,155,656)
Net debt, end of year	<u>(14,405,868)</u>	<u><b>(14,617,403)</b></u>	<u>(15,512,868)</u>

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
	<u>          </u>	<u>Restated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	<b>465,925</b>	197,757
Items which do not affect cash:		
Amortization of capital assets	<b>465,610</b>	465,609
Net change in non-cash working capital balances:		
Decrease (increase) in trade and other receivables	<b>(1,428,244)</b>	(237,144)
(Increase) in inventory of supplies	<b>(36,070)</b>	(20,577)
Increase (decrease) in accounts payable and accrued liabilities	<b>(10,122)</b>	18,256
	<u><b>(542,901)</b></u>	<u>423,901</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of debenture debt	<u><b>(515,637)</b></u>	<u>(493,149)</u>
<b>CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR</b>	<b>(1,058,538)</b>	(69,248)
<b>CASH POSITION AT BEGINNING OF YEAR</b>	<u><b>1,030,674</b></u>	<u>1,099,922</u>
<b>CASH POSITION AT END OF YEAR</b>	<u><u><b>(27,864)</b></u></u>	<u><u>1,030,674</u></u>

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

- a) **Management's Responsibility for the Financial Statements** - The financial statements of the North Red Deer River Water Services Commission (the "Commission") are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board. The Commission is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on June 8, 2004, for the purpose of constructing, maintaining, controlling, and managing a regional water system. The members of the Commission are the City of Lacombe, Lacombe County, Ponoka County, Town of Blackfalds, and the Town of Ponoka.
- b) **Budget Amounts** - The operating budget amounts presented on the Statement of Operations are taken from the Commission's annual budget. The Commission did not approve a formal capital budget for 2011.
- c) **Revenue Recognition** - The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Government transfers are received from third parties pursuant to agreement and may only be used for the completion of specific work or for the purchase of tangible capital assets. Revenue is recognized in the period when the related expenses are incurred, or the tangible capital assets are acquired.
- d) **Inventory of Supplies** - Inventories of materials and supplies for consumption are valued at the lower of cost or replacement cost.
- e) **Tangible Capital Assets** - Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed tangible capital assets are recorded at fair value at the date of contribution and are also recorded as revenue.

The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over the estimated useful life commencing once the asset is available for productive use as follows:

	YEARS
Buildings	25 - 50
Engineering Structures	
Water system	45 - 75
Machinery, equipment, and furnishings	5 - 30
Vehicles	10 - 25

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

- f) **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.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

**2. FINANCIAL INSTRUMENTS**

The Commission utilizes various financial instruments. It is management's opinion that the Commission is not exposed to significant interest or currency risks arising from these financial instruments.

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

**3. BANK OVERDRAFT**

Bank overdraft is comprised of an overdraft protection agreement with a maximum overdraft of \$1 million and interest charged at lender prime less .25%. Collateral is comprised of a general security agreement specifically pledging all grant proceeds and debenture proceeds.

**4. LONG-TERM DEBT**

	<u>2011</u>	<u>2010</u>
	<u>\$</u>	<u>\$</u>
4.46% debenture, repayable \$66,762 semi-annually, due September 15, 2031	<b>1,754,763</b>	1,808,230
4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031	<b>14,695,426</b>	15,157,596
	<b>16,450,189</b>	16,965,826
Less current portion	<b>539,151</b>	515,637
Long-term portion	<b>15,911,038</b>	16,450,189

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
2012	539,151	735,750	1,274,901
2013	563,737	711,165	1,274,901
2014	589,444	685,457	1,274,901
2015	616,323	658,578	1,274,901
2016	644,428	630,473	1,274,901
Subsequent	13,497,106	5,055,722	18,552,828
	<b>16,450,189</b>	<b>8,477,145</b>	<b>24,927,333</b>

Debenture debt is issued on the credit of the Commission at large. The Commission has agreed to levy upon the member municipalities, a cubic meter water service fee based on actual use sufficient to provide for annual funds to pay principal and interest due each year on debentures and annual operating costs.



**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**5. DEBT LIMIT**

Section 3 of Alberta Regulation No. 76/2000 requires that debt and debt limits for the Commission to be disclosed. The Commission has received approval to borrow up to \$27 million under ministerial orders L:043/05 (\$22,000,000) and L:148/05 (\$5,000,000) to complete the project and as such, has not exceeded its debt limit at December 31, 2011. The debt limit and debt service limit otherwise determined are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Total debt limit	<b>9,187,338</b>	8,333,452
Total debt	<b>(16,450,189)</b>	(16,965,826)
Amount of debt limit exceeded	<b>(7,262,851)</b>	(8,632,374)
Debt servicing limit	<b>1,607,784</b>	1,458,354
Debt servicing	<b>(1,274,901)</b>	(1,274,901)
Amount of debt servicing unused	<b>332,883</b>	183,453

The debt limit is calculated at two times the revenue of the Commission (as defined in 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 alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

**6. INVENTORIES OF SUPPLIES**

	<u>2011</u>	<u>2010</u>
	\$	\$
Valves	<b>36,070</b>	-
Material and Supplies	<b>8,657</b>	8,657
Pipe	<b>8,513</b>	8,513
Couplings	<b>2,707</b>	2,707
Miscellaneous	<b>701</b>	701
	<b>56,647</b>	20,577

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**7. TANGIBLE CAPITAL ASSETS**

			<u>2011</u>
	<u>Land</u>	<u>Engineered Structures</u>	<u>Total</u>
Cost, beginning of year	1,821,692	34,776,820	<b>36,598,512</b>
Additions	-	-	-
Cost, end of year	<u>1,821,692</u>	<u>34,776,820</u>	<u><b>36,598,512</b></u>
Accumulated amortization, beginning of year	-	2,073,828	<b>2,073,828</b>
Amortization	-	465,610	<b>465,610</b>
Accumulated amortization, end of year	-	<u>2,539,438</u>	<u><b>2,539,438</b></u>
Net carrying amount, end of year	<u>1,821,692</u>	<u>32,237,382</u>	<u><b>34,059,074</b></u>
			<u>2010</u>
	<u>Land</u>	<u>Engineered Structures</u>	<u>Total</u>
Cost, beginning of year	1,821,692	34,776,820	36,598,512
Additions	-	-	-
Cost, end of year	<u>1,821,692</u>	<u>34,776,820</u>	<u>36,598,512</u>
Accumulated amortization, beginning of year	-	1,608,218	1,608,218
Amortization	-	465,610	465,610
Accumulated amortization, end of year	-	<u>2,073,828</u>	<u>2,073,828</u>
Net carrying amount, end of year	<u>1,821,692</u>	<u>32,702,992</u>	<u>34,524,684</u>

**8. EQUITY IN TANGIBLE CAPITAL ASSETS**

Net assets invested in capital assets is calculated as follows:

	<u>2011</u>	<u>2010</u>
	<u>\$</u>	<u>\$</u>
Capital assets	<u><b>34,059,074</b></u>	<u>34,524,684</u>
Long-term debt	<u><b>(16,450,189)</b></u>	<u>(16,965,826)</u>
	<u><b>17,608,885</b></u>	<u>17,558,858</u>

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**9. ACCUMULATED SURPLUS**

	2011 \$	2010 \$ Restated
Unrestricted operating surplus	891,863	1,031,863
Unrestricted capital surplus	233,104	233,104
General operating reserve	486,517	208,568
Capital reserve	277,949	-
Equity in tangible capital assets	17,608,885	17,558,858
	<u>19,498,318</u>	<u>19,032,393</u>

The capital reserve is used to provide funds for specific capital equipment purchases to enhance or improve service delivery. Appropriations to the capital reserve from unrestricted net assets are established in the annual operating budget.

**10. RELATED PARTY TRANSACTIONS**

City of Lacombe, Town of Blackfalds, Town of Ponoka, Lacombe County, and Ponoka County are members of the Commission and, as such, have been identified as related parties.

i) Water sales charged to Commission members are as follows:

	2011 \$	2010 \$
City of Lacombe	2,150,684	1,930,271
Town of Ponoka	1,308,712	1,196,178
Town of Blackfalds	981,926	891,793
Ponoka County	6,705	4,598
	<u>4,448,027</u>	<u>4,022,840</u>

ii) Service fees are based on the actual net operating costs of the Commission and are allocated among various Commission members based on earlier agreement. Service fees charged to Commission members are as follows:

	2011 \$	2010 \$
Lacombe County	65,716	66,385
Ponoka County	65,716	66,385
	<u>131,432</u>	<u>132,771</u>

iii) The Commission is provided accounting, management, and operations services by the City of Lacombe for a total cost of \$88,826 (2010 - \$122,253) to the Commission.

Included in accounts receivable are \$2,215,050 (2010 - \$786,888) due from various member municipalities.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

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**11. SIGNIFICANT AGREEMENTS**

- i) The Commission has entered into a 25 year agreement with the City of Red Deer, expiring August 31, 2030, to purchase water. The agreement may be terminated by either party by giving five year's written notice. Under the agreement, the Commission is obligated to purchase an annual quantity of water to be determined by negotiation between the parties at a rate calculated on a cost of service basis utilizing the principles set out in the American Water Works Association manuals of practice dealing with water rates and charges.
- ii) The Commission has entered into agreements with the City of Lacombe, Town of Ponoka, Town of Blackfalds, and Ponoka County to supply water. Under the agreement, the Commission is obligated to provide a maximum allocation of water to each municipality for a price determined annually by October 31st of the prior year.

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

	<u>2011</u>	<u>2010</u>
	\$	\$
Interest earned	<u>14,172</u>	<u>8,736</u>
Interest paid	<u>757,651</u>	<u>780,436</u>

**13. PRIOR PERIOD ADJUSTMENTS**

The 2010 financial statements have been restated to allow for the recognition of inventory. Inventory expenses were previously reported as an expense on the consolidated statement of operations.

**14. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Commission Board and Administration.